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Nation's Business

Family Firms: To Sell Or Not

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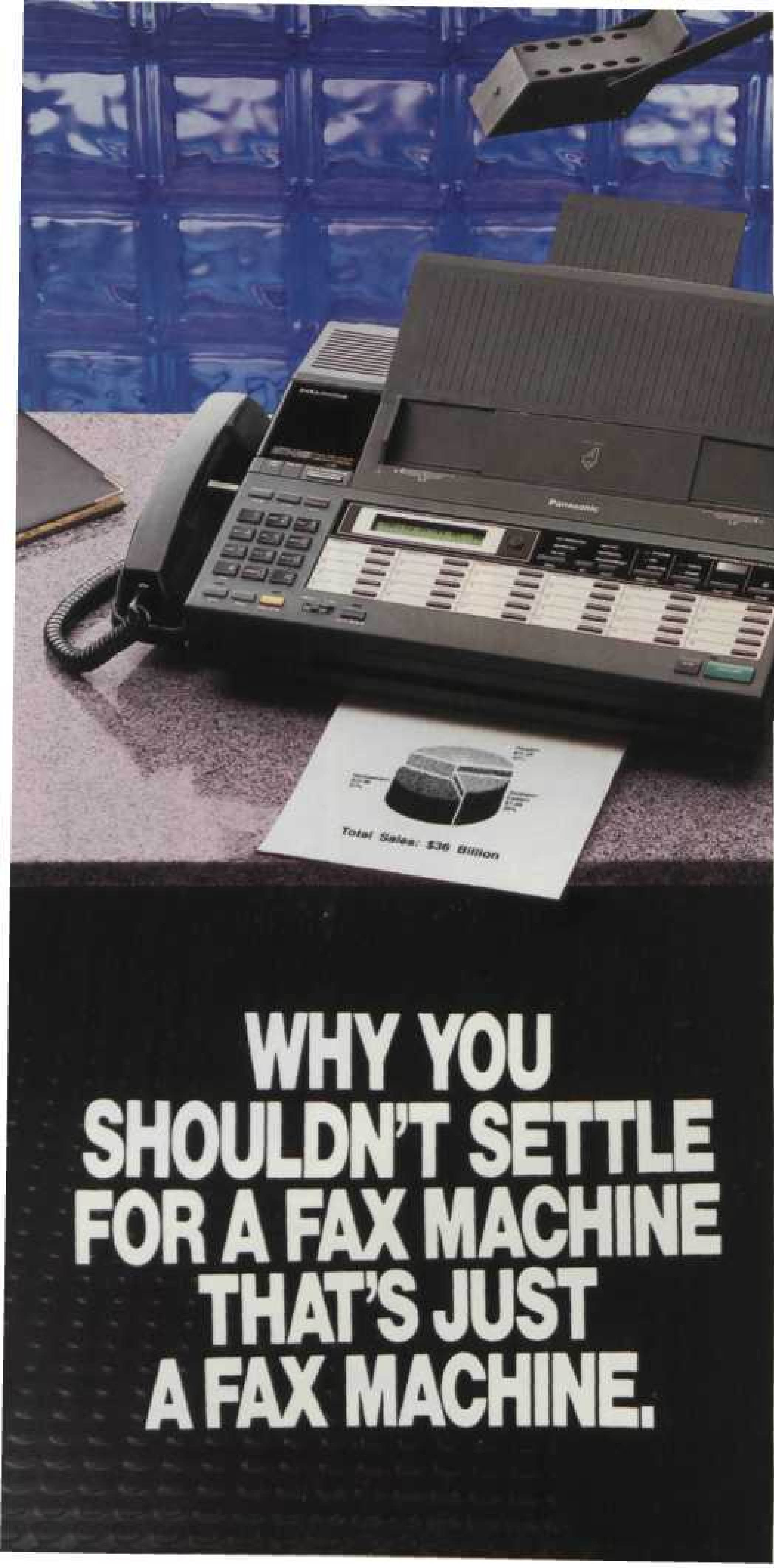
1990

Small Business Outlook



Panasonic introduces a fax with memory, broadcasting, and an answering machine all in one.

Resourcefulness equals survival in the world of small business. That's why Panasonic is introducing the new KX-F320. It's resourceful enough to turn into a business phone or an automatic answering machine. It even has a copier function. And it does it all without requiring an extra phone line.

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The new Panasonic KX-F320. It's the fax that's so much more resourceful.

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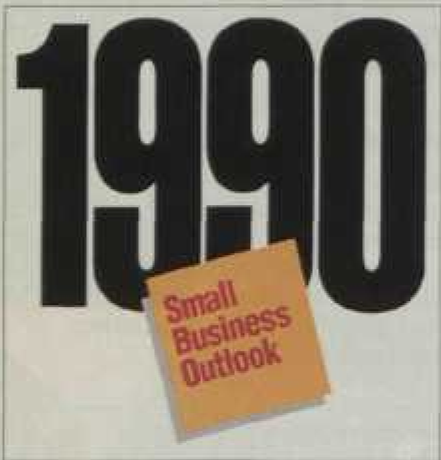
Nation's Business

VOL. 78, NO. 1

FEATURES

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Slow growth *is forecast by economists, yet small business remains optimistic. Cover Story, Page 18.*

Helping schoolchildren *in Florida is part of businessman Bob Alligood's effort for education. Page 36.*

High humor: *Southwest Airlines, like other firms, uses managed fun to improve productivity. Page 58.*

Published by the U.S. Chamber of Commerce Washington, D.C.

Editor's Note

DEPARTMENTS

PHOTO: © MANUELLO PAGANELLI—WOODFIN CAMP

Quality furniture *for upscale transients is Leezee Porter's leasing arrangement. Making It, Page 14.*

Cover Design: Vignelli Associates

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Small Firms' Enduring Optimism

PHOTO: T. MICHAEL KEZA

Consumer spending *will keep on contributing to growth, chief economist Thomas A. Gray of the Small Business Administration told* Nation's Business *Senior Editor Roger Thompson.*

In his research for this month's cover story on the 1990 economic outlook for small business, Senior Editor Roger Thompson was particularly impressed by the enduring optimism of entrepreneurs in the face of growing challenges. With the heady growth of the middle and late 1980s unlikely to recur any time soon, Thompson reports, "small businesses must learn to cope with a tightening labor market and tougher competition."

At the same time, he says, those entrepreneurs continue to believe that their individual companies will do well in the new year despite widespread concern over emerging problems. Actually, Thompson points out, "Small-business optimism about the economy over the past several years has proven to be a better gauge of things to come than the pessimism of many professional economists."

That optimism is grounded in reality. One of the experts in our article says that because smaller companies are closer to customers and more flexible, they generally don't suffer as much in a recession as large ones do, and that well-managed small companies can actually thrive in a downturn. (Thompson suggests that economists might want to consider adding a small-business-optimism index to the yardsticks they now use to measure the economy and draft their forecasts for its performance.)

The views of small-business people already play a substantial role in our economic forecast because, as its title demonstrates, it is tailored to the interests of our small-business readership. We hope that this report provides you with useful insights. And we hope that your new year will live up to the optimism that remains one of the strongest characteristics of small-business people.

Robert T. Gray

Robert T. Gray
Editor

Letters

The Game And The Fame

I read with interest your article "Cities Get Into The Game" [November] and was truly excited at your mention of Buffalo's successful bid for the 1993 World University Games. Since we won the site for the games in June, we have had a ground swell of local support—more than 4,000 volunteers have signed up, more than 150 articles have appeared in the local newspapers, and more than 1,000 resumes have been received!

Your point was clearly communicated in explaining how the sports industry—"the ultimate in light, clean industry"—can certainly be a vehicle for upgrading a city's self-image. Buffalo has recently begun to reap the economic benefits of the Buffalo Bills and Buffalo Bisons, both of which hold the 1988 records for the highest home attendance in the country.

But not since the Pan-American Exposition in 1901 has this area had such a unique opportunity as in 1993, when the eyes of the world will be focused on the World University Games in western New York. These games, the second-largest amateur athletic competition in the world, are an international symbol of the true spirit of youth, world-class amateur athletics, and state-of-the-art sports education and medicine.

Our city is experiencing a renaissance, and the World University Games will help us showcase the positive changes that are taking place here.

Richard R. Anderson
Member, New York State Assembly
Amherst-Buffalo, N.Y.

"You're All Wet"

You report ["It's Your Money," November] that the investment of a swimming pool returns the least amount in the resale of a home, only 40 percent of the cost. To put it mildly, you're all wet—or you should enjoy getting wet in an investment that *will* return most of its cost.

There are three types of home buyers: those who want room for a pool, those who want the existing pool, and others who wouldn't want a pool at all. For those who do not want a pool at all, the cost return becomes a moot point.

The value of an existing pool can only be compared to new construction, as this is not a trade-in item. The buyer of a home with an existing pool may well offer less on the asking price of the home, but that offer is based on the entire property, not full value of the home less 60 percent of pool-replacement costs.

The only argument I can accept is the fact that the new-construction prices of pools do not rise as rapidly as the resale prices of homes. I cannot, however, see a loss factor from installation to resale.

Bruce P. Hamilton
President
Cardinal Pools Inc.
Thousand Oaks, Calif.

Health-Care Costs, Continued

It is obvious from the September cover story, "Curbing The High Cost Of Health Care," and the November responses from readers that we have a nation of people blaming everyone else for the high cost of health care.

The solutions: Hospitals should share and not duplicate services. They should also cap their fees. Doctors should freeze charges. Lawyers should accept capped fees and judgments. Suppliers should cap the cost increases of supplies. Insurance carriers should reduce margins and cut some overhead as well as reduce rate increases. Employers should provide coverage on an equitable basis. Employees should respect the health-care dollar and not overspend just because it is paid. Government should keep its hands out of health care because it only adds expense.

Everyone should be willing to work together, or the result will be a reduction in services with fewer physicians, lesser quality of care, and people broken by unpaid balances. We should treat this like a war and unite as a country to beat this negative spiral before the best health-care system in the world becomes lost in finger-pointing.

Willis H. Glaros
Employer Benefit Systems
Dyer, Ind.

I am deeply concerned about the upcoming bill S. 768, proposed by Sen. Edward Kennedy, D-Mass., concerning mandatory medical benefits for all employees.

This bill would have devastating effects on my ability to own and operate my business. While I realize these benefits are needed, asking the employer to be responsible would crush the cornerstone of our economic structure. The walls of small business would cave in from the strain.

I am requesting my senators and representative to vote against this bill and allow the business sector to hold down costs, to enable us to keep our doors open for business and in turn keep our payrolls open for jobs. This community needs business.

I will look for Congress' efforts on election day.

Dale E. Forwood
President
Associated Machine Works
Chesapeake, Va.

Working At Home

Re your October cover story, "Look Who's Working At Home."

Most homeowner's-insurance policies contain several business limitations and exclusions. Depending on the circumstances, some coverages may need to be added or increased for an additional premium. In some cases, a separate business policy may be needed. All too often, insureds discover they are without coverage only after a loss occurs.

Frank Sabella, Supervisor
Personal Lines
The Harford Mutual Insurance Co.
Bel Air, Md.

Inside Story

Our company is in the business of helping to keep business and service people on the go. Your article "Office Gear On The Go" [November] will be shown to our customers because it presents just how much technology is mobile and portable.

Let me add this comment: The article touched on a specially outfitted Cadillac limousine costing $80,000 as "one concept of the ultimate mobile office." Van interiors provided by companies like ours accommodate all the available technology without the frills and are strictly functional.

Steven S. Krause
Sales Manager
Arlington Sheet Metal Corp.
Santa Fe Springs, Calif.

PHOTO: ©RICHARD LEE

A specially fitted van *provides job mobility for Craig Brummel of Fox Lock & Key in Royal Oak, Mich.*

On The Road Again

In your November issue, reader Thomas R. Lindberg [in a letter referring to an August article on private highways] extols the Italian "Autostrada del Sole" as an example of a well-managed private enterprise.

In reality, this highway is owned and managed by the "Società Autostrada SpA," belonging to the IRI—the Institute for Industrial Reconstruction—a government agency.

At the price they charge for tolls, a one-way trip from Washington to New York would cost $23; to Los Angeles, $239. To this, one must add the price of gas, at $4.28 per gallon, about $3 of which is tax, whose ultimate destination is not only unknown but utterly unfathomable by the Italian public.

Having driven the "autostrada" several dozen times and witnessed what reader Lindberg calls its "efficient" operation, it seems to me that this is an example we might not want to "enthusiastically examine" here in the U.S.

Peter A. Castruccio
Gambrills, Md.

Correcting Leave In Vermont

An item in "Small Business Update" [November] incorrectly states that Vermont's newly enacted maternity-leave law provides one year of leave for female employees. The actual length of leave provided under the law is 12 weeks, with an exemption provided for employers with fewer than 10 employees.

The Vermont Chamber of Commerce and other business groups actively and aggressively opposed this proposal, citing among our reasons: (1) Mandated leave is an unnecessary intrusion by government into private-sector workplace policies; (2) Small businesses are most severely impacted by mandated leave because of the loss of flexibility in developing leave policies that best meet the needs of employers and employees alike; and (3) Enacted at the state level, mandated maternity leave hampers a state's ability to attract new businesses.

Carol A. Presley
Director of Research and Communications
Vermont Chamber of Commerce
Montpelier, Vt.

[Editor's Note: The item should have said that female employees are entitled to 12 weeks of maternity leave after one year with the same company. We regret the error.]

The Drug Dilemma

Your article "Business Moves Against Drugs" [November] cites the increasing use of testing for drug use. But urine tests do not and cannot determine on-the-job impairment. What tests do show, if they are accurate, is what a person may or may not have done outside the job.

If an employee is using some drug, licit or illicit, on the job, the employer should be able to detect this if a problem is present. If the worker is doing a good job and no problem exists, hands off! Urine testing infringes on personal privacy. Employers have no right whatsoever to look into one's personal life outside the job.

Spencer Orman
Minneapolis

Nation's Business

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Small-Business Update

Early intelligence on resources to help you take advantage of the changing business climate.

ENVIRONMENT

Fuel-Tank Insurance: Required But Scarce

Gasoline-station operators and other small petroleum marketers are having difficulty obtaining the liability insurance now required on underground storage tanks.

PHOTO: © SHAUN VAN STEYN—UNIPHOTO

Underground storage tanks *for gasoline now must be covered by insurance to pay for cleaning up leaks, but such coverage is hard to find.*

Businesses in petroleum refining, production, or marketing must have insurance sufficient to cover at least $1 million of cleanup costs resulting from any leak from an underground storage tank. While prospects for easing the coverage rules appear slim, full enforcement of the requirement is being deferred in hopes that insurance will become more widely available. The Environmental Protection Agency's financial-responsibility regulations for the tanks are being phased in over a two-year period that began in January 1989.

A subcommittee of the House Small Business Committee has held hearings to look at small businesses' problems in meeting deadlines for obtaining the required coverage. The deadline is April 26, 1990, for petroleum marketers who own 13 to 99 tanks at more than one facility. Oct. 26 is the deadline for marketers owning no more than 12 tanks and those with fewer than 100 at one facility, for nonmarketers with a net worth below $20 million, and for all local government entities.

"It is difficult for small businesses to secure insurance coverage for their underground storage tanks," said Rep. Dennis E. Eckart, D-Ohio, chairman of a House subcommittee that deals with the impact of deregulation. "Due to imminent EPA deadlines, these small service stations and other petroleum-driven businesses fear closure if adequate financial assurance is not obtained."

Hardest hit by the regulations would be independent gasoline-station owners, who account for about 80,000 retail outlets.

Insurance would cover cleanup costs for tanks that leak, but a General Accounting Office study found that liability insurance to cover the smallest of businesses with underground tanks was virtually unavailable.

EPA reports that 18 insurance firms write coverage for underground petroleum tanks, but only one specializes in coverage for businesses with fewer than 25 tanks. While at least 36 states have set up insurance funds to help tank owners comply with the law, much of that coverage has limitations.

The law permits EPA's administrator to suspend the enforcement deadlines for up to 180 days. While EPA has not ruled out the possibility of suspending the deadlines, it reports that such a suspension "is not warranted at this time." GAO reports that the deadlines may "force faster development of an insurance market and state trust funds."

THE LAW

Legal Battle Joined Over Pension Consulting

The Florida Supreme Court is considering a precedent-setting petition that would prohibit consultants, insurance brokers, and accountants from advising business clients on pension-plan design.

The Florida Bar Association has asked the state's highest court to rule that only lawyers can offer services such as drafting summary plan descriptions, writing plan documents, and advising employers on other plan-design questions.

The state bar association argues that those who are not lawyers yet who provide such services are engaging in the unauthorized practice of law.

In a brief filed with the Florida Supreme Court, the Association of Private Pension and Welfare Plans, a Washington-based lobbying group, held that the cost of designing and administering pension plans will skyrocket if lawyers alone are authorized to provide the pension services. If a lawyer must be consulted for even a minor change not related to a legal matter, "it's going to cost a lot of money," says Wendy Schick, legislative analyst for the APPWP. "The proposal will limit pension plan start-ups and changes."

HEALTH CARE

Mandated Coverage Would Hammer Construction Firms

The nation's construction industry says its employers—most run small firms—would be particularly hard hit by any federal requirement to provide health-insurance coverage to all workers.

The Associated General Contractors of America said in congressional testimony on pending legislation for mandated health insurance that "the employee turnover rate in construction often exceeds 300 percent annually." AGC told the House labor-relations subcommittee: "The cost of providing health-care insurance to employees who do not establish a permanent relationship to any employer would be a tremendous burden on employer-sponsored health-care plans."

The association, reflecting small business's views, said Congress should focus on curbing health-cost increases.

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—Robert Willson, District V.P., U-Haul® International

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DISASTERS

Nature's Uprisings May Hike Premiums

Hurricane Hugo and the earthquake that struck the San Francisco Bay area and elsewhere in California may have cost insurance companies billions, but it's not clear how those payouts will affect business insurance when annual renewal notices go out this year.

Rate increases will be on a company-by-company basis, says Teresa Weeks, a spokeswoman for the Alliance of American Insurers.

Although insurance companies build surpluses to handle inevitable disasters, some companies were hit harder than others. Those that have had to make the biggest payouts are most likely to boost rates.

Since rates are set according to region and state, the greatest increases can be expected in South Carolina and North Carolina, states hit hardest by Hugo, and in California, where the quake damage was spread over a large area. "However, any rate change will be limited because of competition in the market," Weeks adds, noting that the companies affected the most still "have to compete with other companies that may not have been as hard-hit."

PHOTO: ©SCOTT ANGER—GAMMA-LIAISON

California's earthquake damage *could lead to insurance-rate increases.*

SMALL BUSINESS ADMINISTRATION

Small Business Week

Small Business Week 1990 is set for May 6-12. The theme is "Small Business: Leading America Into The 21st Century." During that week, the Small Business Administration will announce the Small Business Person of the Year, honor the Small Business Advocate of the Year, present awards to the State Small Business Persons for the year, and give the Entrepreneurial Success Award. On March 1, SBA will announce state small-business persons of the year, advocates of the year, and special award winners.

For more information on Small Business Week, call SBA's Office of Public Communications at (202) 653-6822.

Innovation Research

Small firms wishing to take part in SBA's Small Business Innovation Research (SBIR) program can obtain free notice of forthcoming solicitations for small-business involvement in federal research and development projects.

The SBIR program, begun in 1982, allows federal agencies to award funds to small businesses with expertise that meets government needs. The SBIR program awards up to $50,000 to study the feasibility of a business's idea and up to $500,000 to develop the idea. In the final phase, SBIR commercializes the idea using only private or non-SBIR federal funding. For the quarterly *SBIR Pre-Solicitation Announcement* and information on proposal preparation, phone (202) 653-6458 or write: U.S. Small Business Administration, Office of Innovation, Research and Technology, 1441 L Street, N.W., Washington, D.C. 20416.

LEGISLATION

Federal Role Proposed On Venture Capital

The House Committee on Small Business is considering legislation to establish the Venture Enhancement and Loan Development Administration for Smaller and Undercapitalized Enterprises—an agency that would be known as "Velda Sue."

The proposed entity would create a public/private corporation that would buy small-business loans from banks and sell them to investors as securities, thereby bringing new funds into the capital pool.

Velda Sue's subsidiary, the Corporation for Small Business Investment (COSBI), would issue securities on behalf of small-business investment companies (SBICs).

In testimony before the committee, Frederick J. Krebs, manager of the Business-Government Policy Department of the U.S. Chamber of Commerce, said the venture-capital industry for small businesses "needs greater access to capital markets through a financial intermediary designed to meet its unique requirements.

"The proposed COSBI would give it that facility," Krebs said.

Velda Sue and COSBI would not preempt the Small Business Administration's lending program. The SBA program functions principally as a last-resort lender and guarantor of loans for small businesses.

THIS MONTH'S NB TIPS

Growth After Start-Up

✔ *One Step Ahead: The Legal Aspects of Business Growth*, by Andrew Sherman, is designed for companies past the start-up stage yet facing growth problems. Sherman, a lawyer, focuses on the legal tangles inherent in managing, money, and marketing. The $24.95 book is available from Amacom, 135 W. 50th St., New York, N.Y. 10020.

Words And Music

✔ Here are two new resources for stimulating ideas in smaller firms:

- *From Manager to Innovator: Using Information to Become an Idea Entrepreneur*, by William Fonvielle, is designed to acquaint managers with tools to initiate change and new ideas. It suggests ways to gather information to further an entrepreneurial project and develop resources and support to bring innovation to fruition. Fonvielle is director of research and development for the Forum Corp., a Boston consulting firm specializing in innovation.

  The softcover, $19.95 book is available prepaid from the American Management Society Foundation Book Dept., 4622 Street Road, Trevose, Pa. 19047; (215) 953-1040.

- *Creativity in Organizations: A Jazz Musician's Perspective*, a videotape produced by the Center for Creative Leadership, is based on the idea that jazz and its history contain lessons for managers concerned with invention and acceptance of new ideas. The video features Bobby Bradford, jazz artist and historian, and Stanley S. Gryskiewicz, director of the Innovation and Creativity Applications Group at the Center. For details, contact Publications, Center for Creative Leadership, P.O. Box P-1, Greensboro, N.C. 27402-1660; (919) 288-7210. NB

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Dateline: Washington

What's happening in the corridors of power that will affect your business.

BIOTECHNOLOGY

Public Concern About Genetic Engineering

Public acceptance of biotechnology remains fragile, representatives of that industry have been told by Administrator William K. Reilly of the Environmental Protection Agency.

Gaining that public support "depends very heavily on the public's confidence that the government is keeping a close eye on what you're doing," he said in a speech at the annual meeting of the Industrial Biotechnology Association, in Washington, D.C.

In theory, most Americans seem to believe that the potential benefits of genetic engineering outweigh possible risks, Reilly said, but specific products that may not mesh with cultural values "meet a good deal of resistance."

For example, he explained, the Food and Drug Administration approved a genetically engineered hormone to stimulate milk production in cows. Nevertheless, eight major food chains declined to carry milk from cows injected with the hormone, "apparently out of concern over adverse consumer reaction to the use of synthetic hormones to produce a product associated with children."

Reilly told the group: "Even when there is no scientific or even economic case for opposing a bioengineered product, my sense is that anxiety over exotic new technologies like genetic engineering is deeply embedded in the human psyche and that we ignore it at our peril."

The EPA administrator said that his

PHOTO: ©DENNIS BRACK—BLACK STAR

Bioengineering *receives scrutiny, says EPA Administrator William Reilly.*

agency has four goals in regulating biotechnology: minimize public-health risks without crippling a fledgling industry; create a public climate in which the technology can develop safely; be flexible enough to meet evolving technology; and have a regulatory policy that recognizes the scientific uncertainties surrounding the behavior of microorganisms in the environment.

CONGRESS

Election-Year Promise: Partisan Skirmishing

The cooperative working relationship to which President Bush and leaders of the Democratic-controlled Congress committed themselves a year ago has essentially vanished, and the forthcoming election-year session is expected to be intensely political.

Much of the early good will evaporated in bitter partisan fights that included rejection of the president's nominee for defense secretary, GOP-sparked ethics charges that caused the resignations of two Democratic House leaders, and conflict over fiscal policy.

Democratic leaders on Capitol Hill are said to be newly emboldened in their dealings with the White House by political victories in recent elections.

The partisan skirmishing will continue this year with congressional elections next November as a focal point.

For a report on the business issues that will be at the center of the coming debates on Capitol Hill, see Page 56.

FINANCE

Budget Reform Remains A Congressional Priority

Another round of budget-reform debate is expected in Congress in the wake of the long impasse over enactment of the federal budget for the current fiscal year. Recommended changes are expected to include a stretching of the schedule set by the Gramm-Rudman-Hollings Act for elimination of the federal deficit by 1993.

Fiscal conservatives, who are among the strongest supporters of the goals of the Gramm-Rudman-Hollings law, will counter any move to undermine that law by pressing long-standing proposals for constitutional amendments requiring a balanced budget and presidential authority to veto specific items in broad appropriations bills.

A two-year budget cycle is another reform expected to be proposed.

TRADE

Security-Council Membership For Economic Agencies

Congress has been urged to add representatives of the major federal economic agencies to the National Security Council. William T. Archey, vice president/international of the U.S. Chamber of Commerce, proposed that the Treasury and Commerce Departments and the U.S. Trade Representative's office be included in the council, which is viewed as being military-oriented.

Archey told the international-trade subcommittee of the Senate Finance Committee: "In the 1990s, more of our foreign policy and security relationships will be defined in economic terms." But the U.S. government, he added, lacks an executive-branch forum in which "the economic and trade dimensions of foreign policy and national security can be joined."

COMPUTER SECURITY

Combatting "Viruses" Requires Research

Current laws to protect computer security are adequate but should be enforced more effectively, say experts in the computer industry. John L. Pickitt, president of the Computer and Business Equipment Manufacturers Association, notes that security breaches such as introduction of "viruses" are the work of skilled, sophisticated individuals, and the federal government needs the expertise to counter them.

The Justice Department should have more investigators and prosecutors trained to deal with computer-security issues, Pickitt said in testimony to the criminal-justice subcommittee of the House Judiciary Committee. He also recommended that the National Institute of Standards, which formulates computer-security policy recommendations, be given resources to make computer-virus research a top priority.

Pickitt also noted that "no technological fix alone will solve this problem. Each time we develop a new lock, eventually a new lock pick will be developed." NB

ENTREPRENEUR'S NOTEBOOK

Something Had To Be Done—Fast!

By Ward Andrews

Call it self-motivation, or entrepreneurship, or a need for independence. Going out after success on your own can lead to the most rewarding experiences of your business career.

After I had spent 20 years with Sears, Roebuck & Co. and had become a store manager, my wife and I decided we would like our own retail store. So I resigned from Sears, and in 1965 we bought a franchised Ben Franklin variety store in Poplar Bluff, Mo. We liked the idea of chain-store connections and support while having complete ownership of our business.

Though quite small, somewhat antiquated, and a bit off the "main drag," our store made money for us from the start. Yet its growth potential was limited because it was hemmed in by other buildings, and Poplar Bluff was being rapidly "malled."

We went looking for a small town with more promise. In 1971 we found Aurora, Neb., population nearly 4,000. Ben Franklin was building a new-concept store—a junior department store with clothing lines. We were attracted to this store, larger than the simple variety store we owned in Missouri. We decided we could handle the start-up costs.

All things seemed to be in our favor: The town was growing and progressive, and its people looked forward to having a nice variety store. Ben Franklin had built a beautiful building and was supplying it as a junior department store. And my wife and I, as owners and managers, were experienced.

> *It was embarrassing to be the high-flying newcomer with a variety store that didn't stock the items customers expected. It was also chilling to think we were in danger of losing our investment, which represented most of our family resources.*

But from our opening day, sales were nowhere near projected levels. Though the townspeople generally praised the store, they were not finding what they expected in a variety store. There were battery-operated toys, but no batteries; table lamps, but no light bulbs; and no gift department, craft department, or kitchen gadgets. Moreover, the style, quality, and selection of the clothing simply did not satisfy our customers.

It was embarrassing to be the high-flying newcomer with a variety store that didn't stock the items customers expected. It was also chilling to think that we were in danger of losing our investment, which represented most of our family resources. Something had to be done—and fast!

My experience with Sears and my first Ben Franklin store gave me a good notion of what customers expected to find behind the Ben Franklin sign. So I began remerchandising the store, buying much of the stock that Ben Franklin sold in its variety stores. With time, patience, and planning, we began to build customer acceptance; word spread that Ben Franklin had the right goods.

Sales increased, and profits followed, but then we ran into another problem. During our first summer, we realized that the store was becoming a huge sauna because across the front there was a nearly 100-foot stretch of glass facing west. It caught the hot afternoon sun, often pushing the temperature inside to almost 100 degrees, and discouraging shoppers from browsing. More air conditioning did little more than boost our utility costs.

Personnel at Ben Franklin headquarters were sympathetic but could offer little help. So I devised a plan to install an insulated brick front on the building. The landlord agreed to pay for the changes and adjust the lease.

Thanks to his cooperation, we got an attractive new front plus more display space where the windows had been, the heat problem was solved, and customers were delighted.

We had overcome our problems, and the growth of the corporation's assets confirmed our belief that moving to Aurora had been the right decision. Our sales grew to become among the best in the Ben Franklin chain. I sold the store and retired comfortably in 1988.

Few small-business owners enjoy smooth sailing from the start. Sorting out the problems and solving them, however, are the true tests of entrepreneurship. Here are some lessons this experience taught me:

1. Before investing your money, make sure you know the exact nature of the business you are buying. It is easy to rely on the judgment of experts, but often their information does not fit your location.

2. Set goals for performance and growth. When goals are not met, look for reasons.

3. Don't be afraid to make major changes when necessary. When you identify a problem, choose the best way of correcting it—and then do it.

4. Carefully observe and gauge customer responses to your new business. If customer traffic is below expectations, it may not be location or product; it might be a window facing west.

5. Don't be afraid to admit your business is having problems. Entrepreneurs, typically reluctant to admit that planning or management might be deficient, often live with a detrimental situation rather than seek help to solve it. Ask for that help.

6. Look beyond the obvious for solutions. As in the example of our uncomfortable heat, the best answer was not the obvious addition of more air conditioning but rather a different solution—a change in the building's structure. NB

Ward Andrews lives in Aurora, Neb., and shops at the Ben Franklin store he opened there in the early 1970s.

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Making It

Growing businesses share their experiences in creating and marketing new products and services.

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A Warm Glow In The Frozen North

It took the first 40 years of his life, Sheldon F. Jacobs says, "to really figure out what I do best." A growing number of people have concluded that his best is very good indeed.

Jacobs, who turned 45 in December, is the proprietor of two Minneapolis restaurants; both are named Shelly's Woodroast. The first, with 70 seats, opened in 1987, and the second, a 200-seater, opened last October.

They have stirred excitement in a city that has won renown for its many civilized virtues but never for a distinctive cuisine.

Jacobs's restaurants specialize in what might be called a sophisticated barbecue. Meats are marinated for several days, then are cooked very slowly in wood-burning ovens, basted constantly in the marinade of herbs and spices; they emerge moist and highly flavorful, but with very little fat compared with the classic barbecue served at such famous places as Arthur Bryant's in Kansas City.

Even though the atmosphere in Shelly's Woodroast is informal, and the service rapid, the surroundings are far more elegant than those of a typical barbecue joint. Both Shelly's have been designed to suggest cozy lodges in the north woods, with rustic fireplaces, wool blankets, and wildlife photos on the walls.

Shelly's Woodroast is very much Jacobs's creation. He devised the ovens himself, drew up the menu ("these are all my recipes"), and supervised the decor down to the last detail. Even now,

Minneapolis restaurateur *Shelly Jacobs got into the business after a dinner guest told him that his sophisticated barbecue would draw crowds. It has.*

he says, "the instructions are that if the customer tastes it or sees it, I have to do it or at least OK it." Jacobs fired the first three managers of his original restaurant because, he says, "I was ferociously involved, and they were casual about it."

His dedication is paying off. Revenues for his original restaurant came to about $1.35 million in each of its first two years. He plans to open a third restaurant in the Minneapolis area, and after that, he says, he'll expand to other cities, probably through joint ventures rather than franchising: "I'm prepared to keep putting money into this."

Running a restaurant is, he says,

Scientists at the Hitachi Central Research laboratory recently made a historic breakthrough: A superconductive, microcomputer chip so advanced, it's decades ahead of the computers that will eventually use it.

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*US$48,496 million, net sales for the year ending March 31, 1989. US$1=¥132.

HITACHI

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"the most complicated business I've ever seen"—and he has seen a few others. Before he finally figured out "what I do best," he spent 20 years in wildly different jobs.

In 1966, while he was in college in San Francisco, he became the personal manager of singer Al Jarreau. Four years later, because he had tired of having his livelihood "at the mercy of someone's vocal cords," he returned to Minneapolis and went into business with his brother, Irwin Jacobs, who has since become famous as an investor.

From 1970 to 1980, the Jacobses worked together in J.Y.J. Corp., a liquidation company; as Shelly Jacobs says, "we bought everything from overages in tobacco crops to airplanes. The roof caved in on a tennis-shoe factory in Puerto Rico, and I was down there for five weeks, digging up tennis shoes."

The Jacobses prospered, and over those 10 years, their operations evolved to the point that they were in charge of about 30,000 employees. "A lot of lawyers, a lot of accountants, a lot of people 'sirring' me to death," Shelly recalls.

He sold his share of the business and "went off making investments in various companies—terrible ones. I thought I was infallible, and I lost most of my money."

He consoled himself by cooking every day and tinkering with outdoor grills to get the wood-roasted flavors he wanted.

One night he served dinner to the vice president of a restaurant chain, who told him that his food could be successful commercially. That led Jacobs to spend four months in San Francisco, cooking his own dishes with two homemade ovens in a friend's Mexican restaurants.

Although his food is by no means Mexican, it quickly accounted for about one-third of the restaurants' sales, he says.

More important, Jacobs found his calling: "When I was working in the kitchen, I said to myself, 'I've found something I truly love.' "

Back in Minneapolis, Jacobs collaborated with engineers to come up with computerized versions of his ovens. He spent two years—and $1 million—laying the groundwork for what became his first Shelly's.

Has he found the satisfaction he sought?

"More than I ever dreamed of. To have people come in and tell you how great your food is, and how much they enjoyed the experience—it's an amazing high."

—Michael Barrier

Leasing The Good Life

From the outside, Antique & Contemporary Leasing's brick warehouse on Capitol Hill in Washington, D.C., offers few clues to the nature of the business. Its only distinguishing features are its bright-red double doors and the finely carved and finished sign directly above them.

But inside are two floors filled with fine furniture, ranging from 17th-century pieces to a modern wicker set designed by Ralph Lauren. A tour winds among Oriental rugs, antique armoires, camelback sofas, sprawling canopy beds, grand old oak desks with genuine leather chairs, Chinese wall hangings, and even several old oil portraits of distinguished-looking men and women.

This is, in short, not your typical rental-furniture outlet. Antique & Contemporary Leasing is, rather, what Leezee Porter, its founder and owner, calls the first upscale rental-furniture company in the country. Its targeted customers are diplomats, corporate executives, government officials, and developers building and showing expensive houses. Many of those people expect to spend only a brief time in Washington before their careers take them elsewhere, and, Porter says, her company tries to "create a comfortable environment" for "someone who wants to live a transient life that doesn't seem so transient."

Porter started her business in 1974, after friends in the diplomatic community complained to her about the limited availability of high-quality rental furniture in the Washington area. After getting a $10,000 loan, Porter rented 300 square feet of warehouse space and began buying furniture. The business grew slowly; most of her potential customers "did not think they would ever lease furniture," she says, "and some of them did not welcome the suggestion when it was given to them."

Antique & Contemporary Leasing now grosses about $1 million a year. Up to two-thirds of Porter's furniture is rented out at any one time, she says, and some pieces never seem to stay in the warehouse. "We have a Duncan Phyfe three-pedestal table," she says, "and in the 15 years that I have been in business, that table has not been in the warehouse for more than 20 or 30 days. I never get to see it."

The costs to customers vary almost as much as Porter's selection, but a client can spend from $350 to $2,000 a month to furnish a three-bedroom residence. Such extras as carpets and wall hangings can push the price up.

—David Ward

PHOTO: © MANUELLO PAGANELLI—WOODFIN CAMP

Leezee Porter's *Washington, D.C., firm specializes in renting upscale furnishings that help visiting diplomats and executives feel at home.*

Shirt Tales

Gary Shuster and Jim Teal, founders of Lin-Tex Marketing, admit they're in a funny business. Their best-selling product is a T-shirt that depicts Grimm, the naughty dog of the "Mother Goose and Grimm" comic strip, clutching a human's leg. The caption: "Safe Sex."

"Mother Goose and Grimm" is one of 15 nationally known comic strips under exclusive license to the Austin, Texas-based wholesaler, which prints and markets a million shirts a year.

Shuster, 40, president and chief executive officer, and Teal, 40, board chairman, have been partners since 1956, when they were grade-school classmates in Columbus, Ohio. The "Lin" in their firm's name comes from Linden School, where they met.

Lin-Tex's sales in 1988 were $5.3 million—triple the figure for 1985—and promised to top $7 million in 1989.

About 120 independent sales representatives service the 7,500 gift shops and department stores that carry Lin-Tex's T-shirts and embroidered apparel. Deals with major corporations are in the works to market corporate logos in a separate line called "More Hip Stuff."

Teal and Shuster worked together in the first Wendy's in Columbus for founder Dave Thomas in 1969. They rose in the burger chain's management team as Wendy's expanded throughout Ohio and the nation. Teal became the owner of a franchised Wendy's outlet in Austin in 1975 and owned five more there by 1980.

In 1981, Teal sold his six Wendy's stores and asked Shuster to come join him in a new business, selling computerized telephone systems. Shuster, who was managing seven stores for the Rax chain in Chicago, was also tiring of the fast-food business, and so he joined his old friend in Austin. But the telephone deal fell through.

Shortly after Shuster arrived in Austin, mutual acquaintances steered a local cartoonist to Teal; the cartoonist wanted financial help to publish his own book of armadillo cartoons.

That book led to Teal and Shuster's first T-shirt promotion. Their shirts, with armadillos drawn by the cartoonist, sold well at area arts and crafts shows and through mail-order ads. Sales sometimes hit $15,000 on three-day weekends, but Teal and Shuster realized that if they wanted to grow beyond the Austin area, they needed the rights to a nationally syndicated comic strip.

Shuster called Berke Breathed, a former University of Texas student, whose comic strip, "Bloom County," was just getting started. Breathed, feeling no one would want a T-shirt based on "Bloom County," refused permission.

But Shuster called Breathed every two weeks, and after six months, Breathed agreed.

Negotiations with the syndicator over "Bloom County" rights led to contacts with other syndicates. Teal and Shuster signed "Bloom County" and "Mother Goose and Grimm" when the strips appeared in only a few dozen newspapers.

Teal and Shuster persuaded the newspapers in which their licensed characters appeared to run free ads promoting both the comic strips and the T-shirts; the papers got a commission for each shirt sold.

As sales increased, a New York venture-capital firm pumped funds into Lin-Tex in exchange for a share of the company.

Lin-Tex now has a 31,000-square-foot facility with 61 employees. The $2-million complex includes a product show room, a telemarketing center, a silk-screen-printing shop, a warehouse and shipping section, a photography studio, an art-design section, a desktop-publishing department, and an advertising-consulting service.

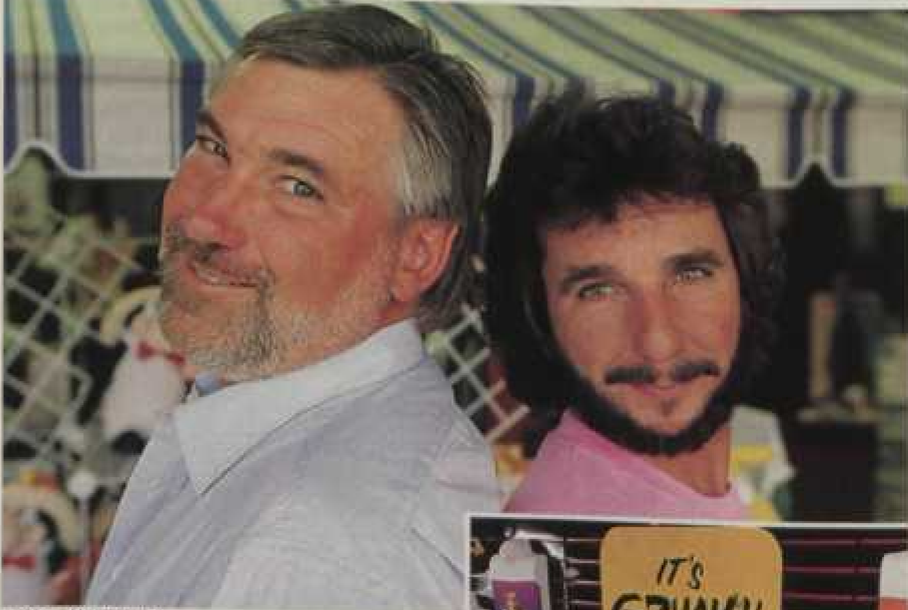
The facility impresses department-store buyers when they view the product line displayed in the showroom, Shuster says. "Once they see the entire package, they can envision it in their store."

Teal elaborates: "Besides the imprinted or embroidered clothing, we provide our customers with what we call a Comic Collectible Collection. That's where a comic fan can, for example, buy a 'Mother Goose and Grimm' T-shirt, a Grimm poster, a Grimm doll, or a book in the same section of the store."

Lin-Tex went international—and beyond comic strips—in 1989 by packaging a Paris Air Show promotion for Houston Space Commerce Corp. The promotion, which involved $30,000 worth of shirts, satin jackets, and caps, commemorated a cooperative effort by the Russian space agency, Glavkosmos, and the Houston firm to put commercial satellites into space.

In the future, Shuster says, "we see Lin-Tex Marketing as a conceptual corporation that takes an idea, packages it, puts it in the marketplace, and lets the retailer take it from there."

—*Al Ebbers*



PHOTOS: © BOB DAEMMRICH

Texas T-shirt moguls *Jim Teal and Gary Shuster have won success by licensing the rights to comic strips like "Mother Goose and Grimm."*

The Economy Catches Its Breath

By Roger Thompson

Small business this year will operate in an economy that is expected to limp along at the slowest pace since the recovery began in late 1982. But there could be a silver lining: Slower growth in 1990 could set the stage for a rebound in 1991.

The consensus forecast of 53 economists surveyed monthly by *Blue Chip Economic Indicators*, a Sedona, Ariz., newsletter, projects a 1990 growth rate of 1.8 percent along with a forecast for lower interest rates and stable inflation. While the U.S. Chamber of Commerce participates in the *Blue Chip* survey, its own forecast is among the most optimistic. The Chamber sees another year of 2.8 percent growth, with significant declines in both inflation and interest rates. (See the chart below.)

The *Blue Chip* survey's growth forecast is down sharply from the robust 4.4 percent performance in 1988 and the more moderate pace of 2.8 percent in 1989. "It will be the most fragile year for growth since 1982," says Robert Eggert, editor of the *Blue Chip* newsletter.

That means small companies, which account for roughly half the country's production of goods and services, will have to run harder just to stay in place. "When the pool of total sales for products is not growing, the market becomes more competitive," says William Dunkelberg, dean of the business school at Temple University, in Philadelphia. "In a slow economy, if you are going to make new sales, you have to steal them from a competitor."

The Chamber's forecast is conditioned on Federal Reserve Board recognition that its strategy of keeping interest rates up to dampen inflation is the most serious threat to higher growth. "We think the economy has a much greater potential for noninflationary growth if the Federal Reserve would just allow that potential to be realized through lower interest rates," says

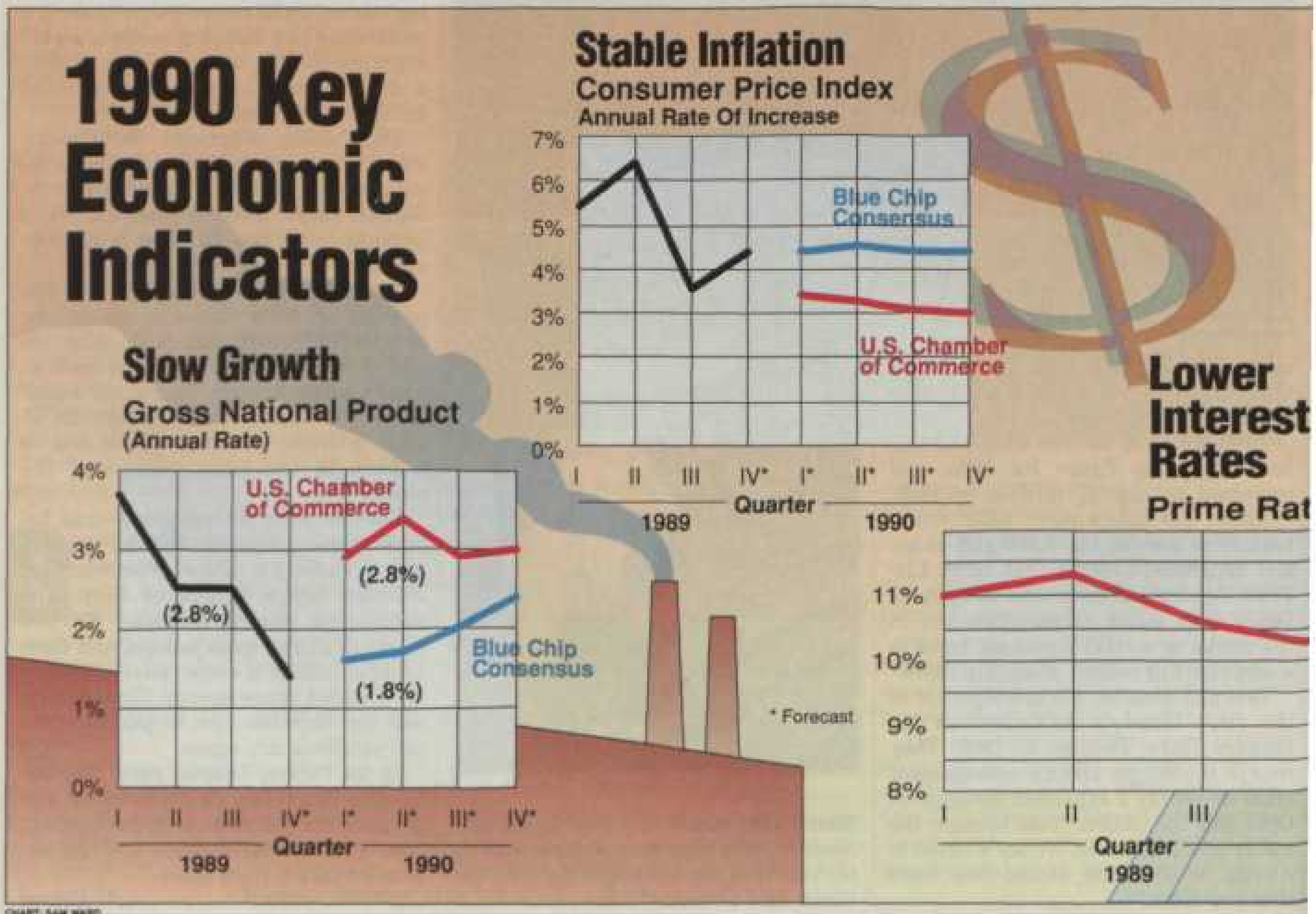


CHART: SAM WARD

A year of slow growth is what economists foresee. Yet most small-business owners are sure 1990 will be a better year, though some think a mild recession may be just around the corner.

1990

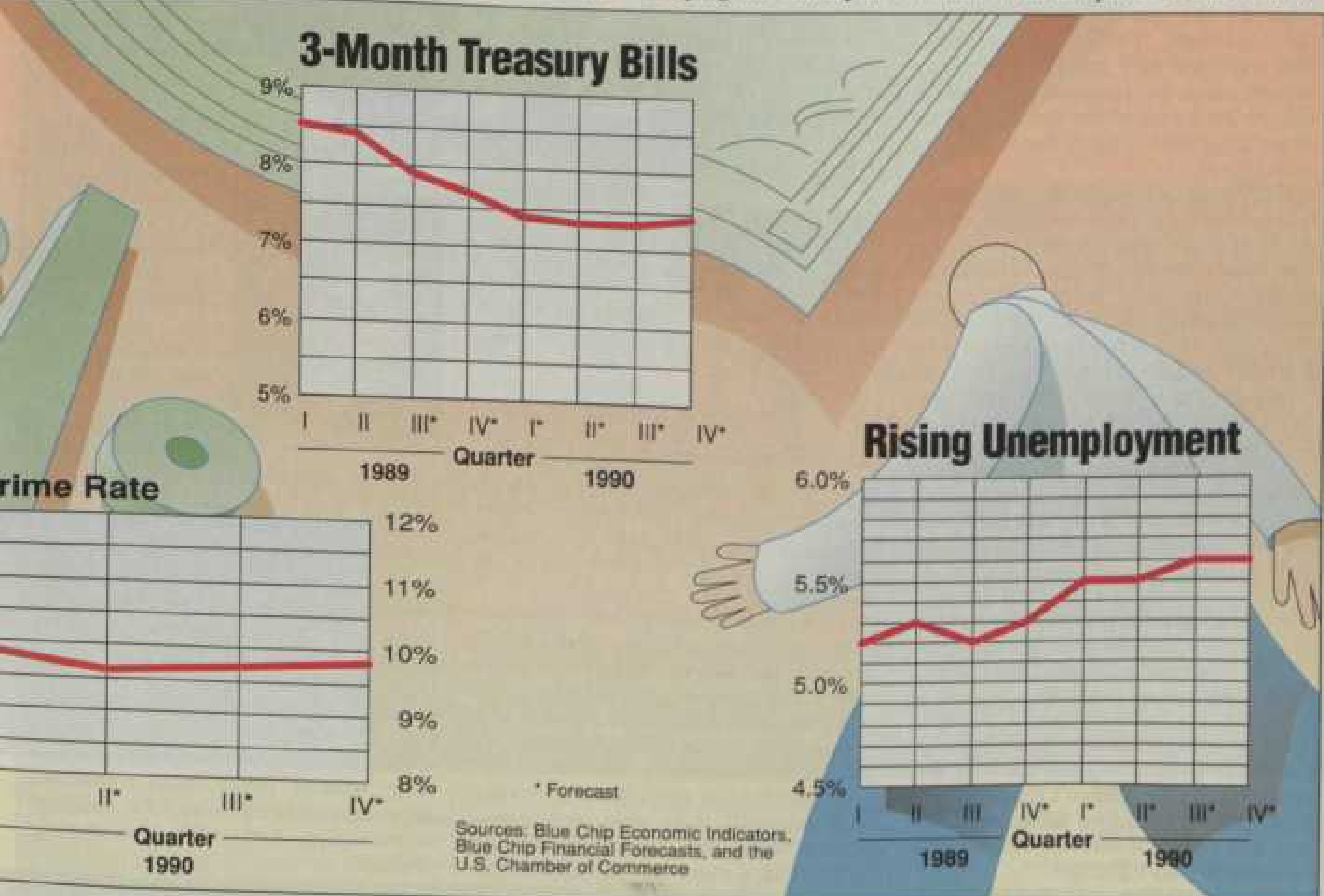
Small Business Outlook

Richard Rahn, vice president and chief economist for the U.S. Chamber. "We keep hoping the Fed will do the right thing and lower interest rates."

Owners of smaller businesses, most of which are privately held, express both more optimism and more pessimism than the professional economists. While most expect 1990 to be better for business than 1989, a substantial number are concerned that a mild recession may be just around the corner.

- In a nationwide survey of 4,500 companies with annual sales in the range of $1 million to $120 million, the Chicago-based accounting firm Arthur Andersen & Co. found that 75 percent predicted an increase in sales in 1990, and 40 percent said they expect to expand their work forces. Both figures represent increases over 1989.
- Eighty percent of the 1,873 business owners surveyed by BDO Seidman, an accounting and consulting firm based in New York, are optimistic about the economy. However, nearly half expect a mild recession soon. The businesses surveyed had annual sales in the range of $2 million to $100 million.
- A survey of 550 metropolitan New York executives whose firms have annual sales of $5 million to $250 million found nearly half saying the country is headed for a recession in the next 18 months. Yet 63 percent expect their 1990 business performance to be better than the past year's, and 58 percent expect to expand their companies over the next few years.

The apparent contradiction in expectations is not difficult to reconcile, says Bernard Tenenbaum, director of the George Rothman Institute of Entrepreneurial Studies at Fairleigh Dickinson University, in Rutherford, N.J. "Small companies generally don't suffer as badly in a recession as large ones. And well-managed small companies can thrive in a recession," says Tenenbaum, because such companies are more flexi-



* Forecast

Sources: Blue Chip Economic Indicators, Blue Chip Financial Forecasts, and the U.S. Chamber of Commerce

ble and they typically are closer to their customers. (See the box on this page.)

David Birch, president of Cognetics, a Cambridge, Mass., firm that analyzes small-business data, agrees. "In both of the recent economic downturns, small companies kept right on going. They are more flexible, more adaptable, and more resilient than large firms. That doesn't mean that things get better for them per se. But they suffer less than the big guys."

Small-business owners also know their customers. And there is no indication yet that consumers have closed their wallets in anticipation of a recession. In fact, consumer spending, although not robust, accounted for nearly two-thirds of all growth in the economy in 1989. Moreover, the Conference Board's Consumer Confidence Index—a monthly survey of consumers—remained strong through October. "Evidently, the strong employment situation, the benign pace of inflation, and receding interest rates add up to a most comfortable economic environment for the consumer," the Conference Board concluded in its October survey.

There's even a bright side to the forecast for a year of minimal growth. Interest rates are expected to fall by one-half to three-quarters of a percentage point by midyear, boosting sales of big-ticket durable goods and spurring capital investment. Falling interest rates also could put new pep in the sagging export boom by reversing the recent rise in the value of the dollar, making American goods cheaper for foreigners to purchase.

Rather than recession, 1991 could bring something of an economic resurgence led by capital investment and exports, says Thomas A. Gray, chief economist of the Small Business Administration. He says: "1990 may be the 'pause that refreshes,' bringing us back to faster growth in 1991. A 'breathing spell' during the next year or so may enable the economy to return to a higher growth path in 1991, without fear of increasing inflationary pressure." (See the box on Page 25.)

Some economists worry, however, that the current level of inflation—between 4 percent and 5 percent—won't recede even during a year of slow growth. Roger Brinner, chief economist for Data Resources Inc., a Lexington, Mass., economic-consulting firm, warns that 1990 could mark the return of "stagflation," characterized by slow growth and stubbornly high inflation. A similar period plagued the economy in the late 1970s. "I don't think that the slow-growth period we will have in 1990 will be enough to seriously knock inflation down," says Brinner.

Whatever direction the economy

How To Prosper In Slow Times

As the economy slows in 1990, how should small businesses respond? Here are four views:

PHOTO: © TOM SOBOLIK—BLACK STAR

• Do not cut your advertising budget, says Bernard Tenenbaum, director of the George Rothman Institute for Entrepreneurial Studies at Fairleigh Dickinson University, in Rutherford, N.J.

Small companies tend to cut discretionary costs, such as advertising, during recessionary periods. But research indicates that if you maintain your advertising, you will emerge with a larger share of the market than when you started.

Look carefully at gaining a competitive advantage with resources you have overlooked, such as mailing lists. Use your data base more efficiently. Think about retraining workers to take on larger roles.

Don't forget to treat your customers like lifetime friends. Maintain top-quality service. A healthy company going into a sluggish period should emerge a healthy company.

PHOTO: © TOM SOBOLIK—BLACK STAR

• You have to protect yourself from being crowded out of the market by bigger companies, says Peter Radford, chief economist for the National Westminster Bancorp in New York. Maintain your productivity, and increase it if you can. Although bigger companies have greater resources, you have to keep spending through slow times so that you don't get pushed out of the market.

Cut hidden costs that are not generating business production. You have to protect your market share and at the same time protect your margins. And you may have to introduce some kind of cost-control measures; sometimes you have to be ruthless.

Obviously, you don't want to overextend yourself. It is time to postpone some of those ideas for expansion, such as building a store and hiring more labor. This is a time for you to implement cost controls.

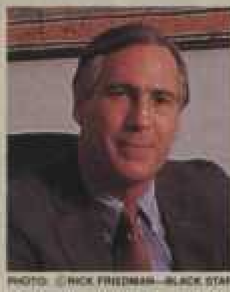


PHOTO: © RICK FRIEDMAN—BLACK STAR

• One obvious move is to start thinking about exports, says David Birch, president of Cognetics Inc., a firm in Cambridge, Mass., that specializes in small-business data analysis. Historically, smaller firms have been tied closely to the domestic economy. But when the domestic economy is slowing, one clear way to beat that is to go someplace where that isn't happening, such as Europe or Canada. We have some highly innovative smaller firms in the U.S. tapping into exports. One of the striking things is that small companies already are exporting larger amounts on a per-capita basis than large ones. Firms with 50 to 99 employees are more likely to export than firms with more than 500 employees. In fact, more than half of all exporters have fewer than 100 employees. So much for the myth that small companies can't export.

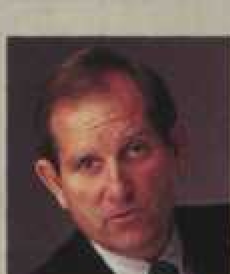
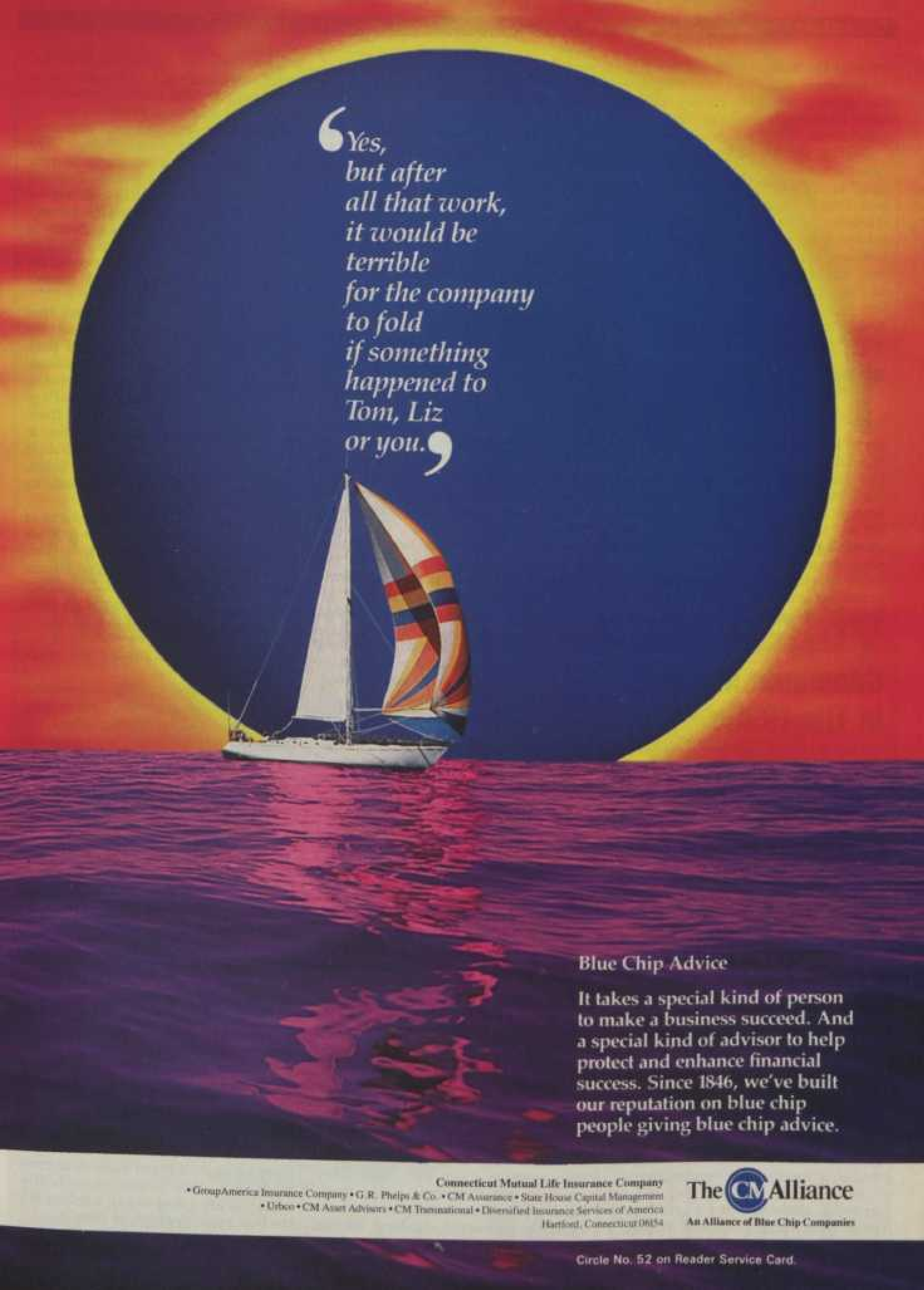


PHOTO: © ROBERT BARROS

• The first thing that every small or midsized firm should do is consult the leading indicators for their business and keep an eye on where the indicators are heading, says Dan Pavelich, managing partner of the Spokane, Wash., office of the accounting and consulting firm BDO Seidman.

Make sure your lines of credit are secure. In the event of a cash crunch during an economic slowdown, you may need your bank to help tide you over. Tighten your accounts receivable. Don't let delinquent accounts go on for too long. We find that during periods of high profitability, companies do not seem to manage their accounts receivable very well.

Use your current property and equipment wisely. Don't lease unneeded space or machinery. Watch for buildups in inventory, and track slow-moving products.


"Yes, but after all that work, it would be terrible for the company to fold if something happened to Tom, Liz or you."
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takes in the months ahead, seven years of economic expansion, the longest in the nation's peacetime history, already have altered the business climate for small firms.

Overall, the climate for small business "is not as good now as a few years ago," says Doug Handler, an economist with Dun & Bradstreet Corp., a major marketer of business information and related services. "The best period for business starts is right after a recession. Labor and capital are cheap. But as the expansion continues, labor markets tighten, and interest rates go up. And it gets harder to find your niche. It's harder to begin a business."

The current expansion has pushed many small companies up against a serious labor shortage. Company presidents surveyed last fall by *D&B Reports*, a Dun & Bradstreet publication, said their No. 1 problem in 1989 was finding qualified, motivated employees. Seventy-three percent of the 452 companies responding to the survey reported difficulties recruiting employees, up 9 percentage points from 1988.

The employment crunch should ease somewhat in 1990. With growth reduced to a minimum, the *Blue Chip* survey forecasts that unemployment will drift upward to an annual average of 5.6 percent.

Throughout the expansion, small companies have been the source of most of the jobs created by the U.S. economy. From 1980 to 1988, the nation added approximately 17.5 million jobs. During the same period, the largest industrial corporations reduced their work forces by 3.5 million employees.

The phenomenal ability of small business to create jobs has pushed the nation's unemployment to the lowest level since the early 1970s. Through December, the jobless rate had remained under 5.5 percent for 19 months. Fifteen states had jobless rates below 4 percent.

Conventional thinking held that such low rates of unemployment would force companies to bid up wages sharply to attract scarce workers. As wages rose, so would inflation as companies hiked prices to cover higher labor costs. But it didn't work out that way, and the threat of wage acceleration now seems to have passed.

Although salary and benefits costs have risen over the past two years, the increases have been far more moderate than predicted. When adjusted for inflation, total compensation costs have increased very little. For the year that ended in September, total compensation costs advanced 5.1 percent; inflation in that period was 4.4 percent.

"This really surprises me," says Temple University's Dunkelberg. "The trend even holds up regionally. A year ago, one in two firms in New England reported having a hard time filling vacancies. But even there, wages haven't gone up sharply." A major factor in restraining wage increases, Dunkelberg adds, is "the continual concern for prices and competition, which doesn't allow wages to go up much."

Still, Data Resources forecasts that an imbalance between demand for skilled workers and supply will push wage inflation well above the national average in some metropolitan areas in 1990 and 1991. (See the chart on Page 26.) This is expected to occur in Baltimore, Washington, D.C., and cities in the Carolinas and Virginia. Rebounds in the energy-producing states of Texas, Arkansas, and Arizona will push up wages there.

Arkansas already is showing signs of new economic vitality. A Dun & Bradstreet survey of business incorporations reports that Arkansas led all other states in growth in that category during the first seven months of 1989;

Consumer Markets In The 1990s

PHOTO: T. MICHAEL KEZA

Sandra Shaber is an economist and vice president of the Futures Group, a consulting and research firm based in Washington, D.C. She has a number of thought-provoking views about what the 1990s hold for consumer markets.

On prospects for consumer-product companies in the 1990s: Consumer-product companies will face stiffer competition for market share in a changing economic and demographic environment. A key factor is that our population is growing much more slowly than it did in the '50s, '60s, and '70s. Also, there is a likelihood of a slow-growth economy ahead. This will mean maturing markets for consumer goods.

In consumer markets that are not growing, there are two ways to compete: price competition and finding a niche to differentiate your product or service to address some unmet need. This niche strategy is how to avoid the heat of price competition.

On fragmentation of consumer markets: Consumer markets for many years now have been very fragmented. This is hardly news. But the effect of this has spread all over the place. And I think in recent years fragmentation has taken on new meaning. For example, although in the past the U.S. may have at least paid lip service to the notion of assimilation in a social melting pot, we now want to be different.

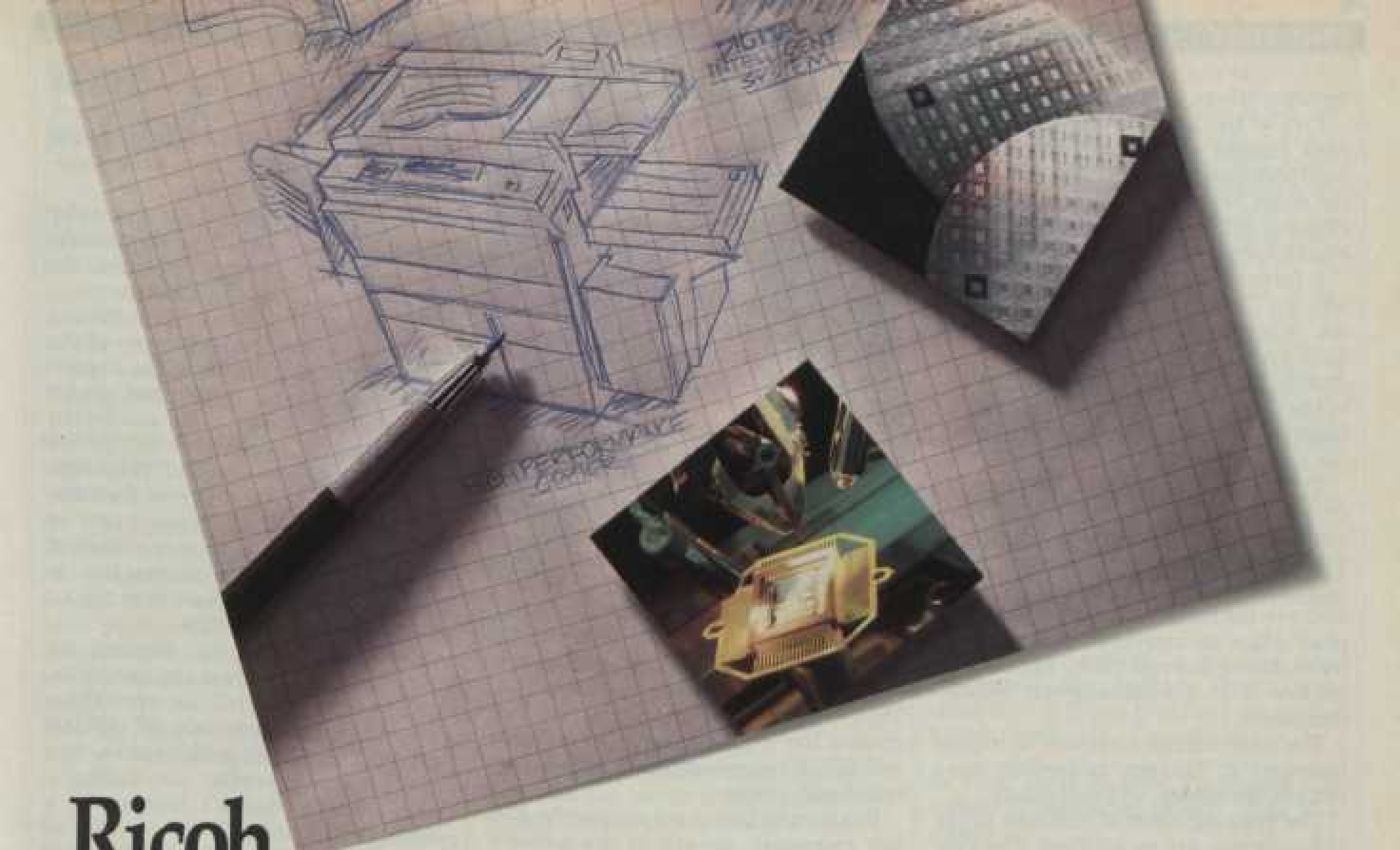
Well, we have more of an opportunity now in terms of the competitive environment in the consumer industry. If economic growth is slow and a company wants to break out of murderous price competition, then it will try to take advantage of some of these differences among us to meet some individual demands.

On the impact of technology: Well, technology also offers a certain opportunity here, a push, if you will. Technology is making it possible now more than ever to meet individual differences. A great example is the small-batch production techniques that the Japanese pioneered, making smaller and smaller runs for smaller and smaller product niches.

Also, advanced telecommunications and the declining costs of computing power have had a leveling effect between the big guys and little guys. A small company now has access to information about consumers and the marketplace that was unavailable just a few years ago. That's a really important change.

On the importance of time-saving products and services: The issue of time has become important, certainly in great part because of the high percentages of two-career parents. But the concern is much broader than that. Most of us find ourselves tremendously pushed for time. The world is very competitive. We have to work very hard just to keep up. What this means is that we want to make the very best of the time we have.

It means when we go out and buy something that we don't want any hassles with the product or service. It makes brand names important. We don't want to do a whole lot of research. So it's important to identify a store name or a brand name that communicates clearly and consistently what you are going to get, whether it's the best price, prestige, or service.



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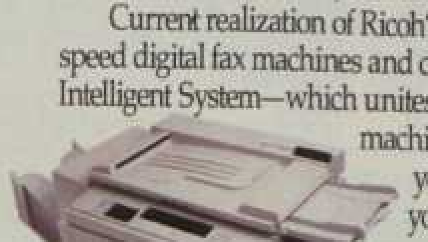

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incorporations were up 47 percent.

Five of the nation's nine Census Bureau regions also posted increases in incorporations through last July. (See the chart below.) Colorado and Massachusetts led the states with the sharpest declines.

A turnaround also seems to be on the way for Texas, Louisiana, and Oklahoma, where business failures declined 25.5 percent during the first nine months of 1989 compared with failures in the same period in 1988. Nationwide, failures dropped 15.6 percent during the same period.

The South Atlantic was the only region where business failures actually climbed during the first nine months of 1989. In Georgia, failures soared 41 percent; in Virginia, 30.5 percent. The failures are the result of a shakeout taking place after an entrepreneurial growth boom during the mid-1980s. Fierce competition now is squeezing out weaker companies.

The only industry sectors to report increases in failures nationwide were finance, insurance, and real estate.

The growing signs of softness in the U.S. economy are no accident. The Federal Reserve set out in the spring of 1988 to slow the economy enough to head off an expected surge in inflation. The central bank raised short-term interest rates about 3 percentage points through June 1989, before beginning to reduce rates again. Its goal was to bring the high-flying economy in for a "soft landing," as opposed to a "crash" that would produce a recession.

At this time a year ago, the *Blue Chip* consensus warned of too much growth in 1989—not too little—unless the Fed boosted interest rates to slow growth and cool inflation.

But Richard Rahn, the U.S. Chamber's chief economist, maintains that the slowdown engineered by the Fed was misguided and harmful to the long-term health of the economy. He argues that the Fed didn't have to raise interest rates to curb inflation. The nation's money supply, not its growth rate, determines the direction of inflation, he says. "Inflation results when there is too much money chasing too few goods. Thus, inflation will increase if the Fed creates too much money, and inflation will fall if money-supply growth is curtailed sufficiently."

Rahn maintains that because the Fed has restrained growth in the nation's money supply for over two years, inflation eventually would have declined without pushing up interest rates. Accordingly, the Fed could immediately lower interest rates and allow the economy to grow at a robust 3.5 percent annual rate while inflation falls, assuming continuing restraint in money-supply growth, Rahn contends.

Rahn's views generally are shared by top economists in the Bush administration, who have sharply criticized the Fed for not cutting interest rates.

The higher rates and the resulting stronger dollar pushed key areas of the economy into the doldrums. The export-led boom in manufacturing has shown signs of slowing down, and residential construction in September fell to the lowest level since the last recession. Robert Villanueva, director of forecasting for the National Association of Home Builders, expects only a modest increase in new-home construction in 1990, just 40,000 units more than the 1.4 million homes built in 1989.

Industrial production dropped 0.7 percent in October from the month before, the steepest fall in over three years. Manufacturers laid off 133,000 workers from March to November. And total corporate profits are falling—which usually doesn't happen in a growing economy.

Declining optimism about the near term has produced cutbacks in investment in new plants and equipment.

The retail sector also shows signs of

Fewer Businesses Fail . . .

U.S. business failures dropped 15.6 percent in first nine months of 1989 compared with the same period in 1988.

Region	Number Of Business Failures	Percent Change
New England	759	-10.7%
Middle Atlantic	2,879	-23.0%
East North Central	6,696	-2.8%
West North Central	2,283	-29.1%
South Atlantic	5,791	+5.3%
East South Central	2,093	-14.6%
West South Central	6,330	-25.5%
Mountain	3,350	-24.7%
Pacific	7,639	-17.0%
U.S. Total	37,820	-15.6%

. . . And Incorporations Advance In Most Regions

Incorporations increased 1 percent in the first seven months of 1989 compared with the same period in 1988.

Region	Growth/Decline In Formation of Corporations	Percent Change
New England	-1,818	-7.5%
Middle Atlantic	-2,131	-2.7%
East North Central	2,191	+4.1%
West North Central	847	+4.3%
South Atlantic	3,915	+3.6%
East South Central	1,476	+9.8%
West South Central	2,620	+8.3%
Mountain	-1,299	-4.4%
Pacific	-1,813	-3.9%
U.S. Total	3,988	+1.0%

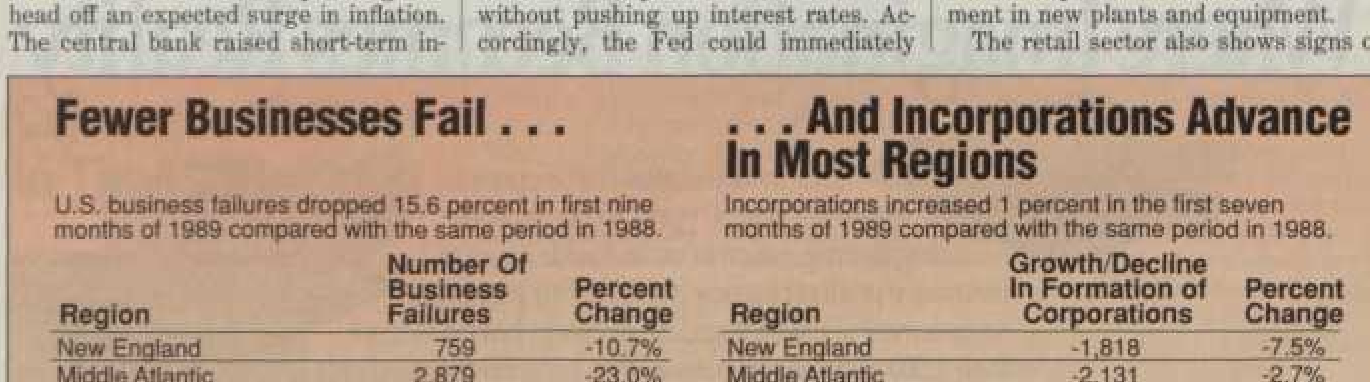

CHART: SAM WARD

What To Expect In 1990

Now that the Federal Reserve has achieved a "soft landing" in its attempt to slow the economy, small business should look ahead to a rebound in 1991, says Thomas A. Gray, chief economist at the Small Business Administration. Following are excerpts from a *Nation's Business* interview with Gray.

Q. Many economic indicators point toward slower growth in 1990. Is there a recession ahead?

A. I do expect 1990 to be a year of slower-than-normal growth, with the real gross national product unlikely to expand more than 1.5 to 2 percent. I don't believe there is a recession in the immediate future. Nineteen-ninety may be the "pause that refreshes," bringing us back to faster growth in 1991. Beyond that date, I don't see any reason why we should fear a recession in 1992 or 1993.

Q. Are you saying that minimal growth this year will lead to higher growth later?

A. The slowdown may be constructive in many ways. Steady growth during the expansion has moved the economy very close to full employment. Continued growth at a level of 3 percent or higher would quickly lead to overfull employment and higher wages. Some inflationary wage pressures were felt in early 1989, causing the Federal Reserve to raise interest rates to slow the economy. That slowness should persist during the first two or three quarters of 1990, slightly increasing the unemployment rate and lowering wage pressures, and taking away much of the inflationary pressure in the economic system. A "breathing spell" during the next year or so may enable the economy to return to a higher growth path in 1991, without fear of increasing inflationary pressure.

Q. Where will the growth come from in 1990?

A. I think that consumer spending will continue to be a major contributor to growth in 1990. I think export sales will fall off considerably if the dollar remains at a relatively high value vis-à-vis the German mark and the Japanese yen. If the dollar adjusts downward by 10 percent or so, which I think is a likely occurrence, then exports may pick up considerably by the last quarter of 1990. Business investment, particularly for new plant and new manufacturing equipment, should slow somewhat in 1990 from 1989 levels as

PHOTO: T. MICHAEL KEZA

No recession *any time soon, says SBA chief economist Thomas A. Gray.*

demand for manufactured goods remains at the lower levels encountered during the fourth quarter of 1989.

Q. Low unemployment actually seems to be a problem in some regions—like New England. Are we running out of labor?

A. No, we are not running out of labor, but the rate of growth of the labor supply is falling compared to the growth rates we experienced during the 1970s and 1980s. New England has had exceptionally low unemployment rates during the past three years, with rates in some metropolitan areas falling as low as 1.5 percent. As a consequence, wage rates, particularly wage rates for low-skilled or semiskilled labor, have moved up sharply. Many small businesses have been unable to hire enough workers or to retain workers in an extremely competitive labor market. New England has had falling employment for the last two quarters, however, and unemployment rates have risen in most of the New England states.

Q. Will inflation remain under control in the 4-percent range during 1990?

A. I believe that slow growth in 1990 will certainly ease inflationary pressure during the year. However, I expect inflation to remain in the 4-to-5-percent range. Moving below this range will be very difficult given recent wage increases in many parts of the country, which have experienced unemployment levels below 4 percent. Price increases have been particularly heavy in recent months in the fast-food industry, and in service businesses affected by the rising cost of unskilled labor.

Q. How far will interest rates fall?

A. That depends upon how much the economy slows. The Federal Reserve appears to want to reduce inflationary pressure by slowing the economy but does not want to push the economy into recession. By pushing short-term interest rates up more than a year ago, the Fed has been successful, so far, in accomplishing this goal. If the economy continues to grow at a pace between 1.5 and 2 percent, then the Fed is unlikely, in my opinion, to lower interest rates by more than a fraction of a percentage point. If the growth rate falls below the 1.5-percent rate, then the Fed will probably take steps to lower short-term rates by more than one percentage point.

Q. Are rising health-care costs cutting into employee raises in small companies?

A. The short answer is yes. The total wage and benefit package, or total compensation, is being held back or eroded by the rising cost of health care.

Q. What kinds of small companies can expect to prosper as growth slows to a crawl?

A. One industry that comes to mind immediately is medical services, which has expanded steadily now for more than 25 years. As the population ages, the demand for medical services is almost certain to continue to increase. Small businesses producing food products will continue to grow, as will firms that distribute basic consumer items. Small service firms whose business is tied to the maintenance of assets, such as home-repair services, electrical-repair services, plumbers, etc., should also stay quite busy as consumers decide to maintain what they have rather than stretch to make replacement purchases.

Q. What can Congress or the Bush administration do to spur entrepreneurship in the 1990s?

A. There are several things. Decreasing the federal deficit would reduce the government demand for savings, making funds available for new ventures or for increased investment by business. Lowering the capital-gains tax rate would also encourage start-ups designed to produce capital gains, and it would increase the after-tax return to many existing ventures. Reinstatement of Individual Retirement Account deductibility would also encourage saving, as would the elimination of taxes on interest earned from savings accounts or bonds. The basic point is that increased saving will help lower interest rates and make innovation less expensive.

weakening. Retail sales dropped 1 percent in October from the month before, the steepest drop since January 1987. The biggest factor in this decline was auto sales, which skidded 5.5 percent during October. While car sales are expected to strengthen in 1990, Tom Webb, chief economist for the National Automobile Dealers Association, says auto makers expect their 1990 sales of cars and trucks to fall 1 million below the 1989 total of 14.6 million.

Few areas of the country have escaped the impact of the slowdown. The Grant Thornton Index of Economic Activity—a measure of seven types of economic activity in each of 24 major metropolitan areas—fell during the first two quarters of 1989. The index dropped in 19 of the metro areas during the first quarter and in 22 during the second quarter.

This was the first time since the accounting and consulting firm started the index in 1985 that it has fallen in two consecutive quarters.

For the 12-month period that ended June 30, 1989, the index declined in all but five metro areas: San Diego, Minneapolis, Milwaukee, Cincinnati, and Seattle. Over the same period, it declined most in Phoenix, Boston, and Kansas City.

Against this background, it's not surprising that Dun & Bradstreet's survey of executives' expectations for sales and profits for the fourth quarter dropped to the lowest level in four years. The firm interviewed 1,500 executives in manufacturing, retailing, and wholesaling. "After two years of consistently strong expectations, business executives are getting skittish," says Joseph W. Duncan, D&B's chief statistician.

Hot Spots For Wage Inflation

	PERCENT CHANGE 1990/91
Baltimore	7.6
San Antonio, Texas	7.2
Salt Lake City	7.2
Norfolk, Va.	7.1
Washington, D.C.	7.1
Columbia, S.C.	7.1
Honolulu	7.0
Raleigh-Durham, N.C.	7.0
El Paso, Texas	7.0
Charlotte, N.C.	7.0
Little Rock, Ark.	6.9
San Diego	6.9
Austin, Texas	6.9
Albuquerque, N.M.	6.9
Tucson, Ariz.	6.8
Greensboro, N.C.	6.8
Dallas	6.8
Phoenix, Ariz.	6.8
Fort Worth, Texas	6.7
Richmond, Va.	6.7

Source: DRI-McGraw-Hill

With so many caution signals being flashed by the economy, 1990 may not look like a great year to start or expand a business. "The rate of start-ups may have fallen off temporarily, because some entrepreneurs anticipate that we may enter a recessionary period," says Thomas Gray of the Small Business Administration. "They are holding back new ventures until the economy shows signs of growing more rapidly."

Others will see no reason to wait. "If you have the right idea, you can start a business anytime," says James P. O'Halloran, head of entrepreneurial services for Arthur Andersen.

Gray agrees: "New opportunities are constantly being generated by shifting populations, by technological advances which contribute to new innovations, by changes which alter price or cost relationships, or by changes in the regulatory environment."

In short, Gray concludes, even during a year when the economy may grow at a snail's pace, "There are still plenty of opportunities to exploit and many potential entrepreneurs to help exploit them." NB

To order reprints of this article, see Page 70.

Business Start-Ups: Not So Risky After All?

Starting a new business may not be as risky a venture as previously thought. Seventy-seven percent of all new businesses survive the first three years of operations, according to a new study by American Express Small Business Services.

Previous studies of small-business survival rates indicated that more than half collapsed during the first three years. But the new study tracked 2,994 start-up companies nationwide for three years and found that most were still in business. Of the industries surveyed, manufacturing showed the greatest success rate, at 82 percent, while retailers showed the least success, at 73 percent.

"This study helps debunk the myth that most new businesses fail," says Barbara Barsa, vice president of American Express Small Business Services in New York. These findings should be encouraging for would-be entrepreneurs, especially those waiting for an upturn in the economy to launch their own businesses.

The survey found six characteristics of successful entrepreneurs:

Self-Confidence. Of those who said their chance of success was 9 out of 10 or better at the outset, 82 percent remained in business after three years. Even among those who were less sure of themselves—those who put their chances at 6 out of 10—the survival rate was 67 percent.

Size Makes A Difference. But not a big difference. The survival rate for new businesses that had an initial investment exceeding $50,000 was 84 percent, compared with 74 percent for those starting with under $20,000. And 82 percent of the firms that began with six or more employees survived, compared with 71 percent starting with one full-time employee.

Emphasis On Service Rather Than Price. Eighty-two percent of the firms that said better service made up more than half of their business strategy survived. But service was rated only slightly ahead of price; 70 percent of firms relying mostly on lower prices were in business after three years.

Working Hard, But Knowing When To Stop. Entrepreneurs working 60 to 69 hours a week had an 80-percent survival rate—slightly ahead of the 76 percent for those working under 60 hours and the 75 percent for those who worked more than 69 hours.

Devoting Full Time To The Business. Seventy-eight percent of the entrepreneurs who said their business was their only job survived, compared with 70 percent who held another job while running their own firm.

Product Knowledge. Prior experience isn't necessarily a big boost for survival. Eighty percent of entrepreneurs who said they worked with the same products or services in their prior job remained in business after three years. There was a 72-percent survival rate for those who said they were providing products or services very different from those in their previous job.

QUALITY

A Pursuit Of Excellence

Florida Power and Light, winner of the prestigious Deming Prize for quality performance, offers its strategies for success.

By Donald C. Bacon

PHOTO: T. MICHAEL KEZA

In an emergency trouble center *at Florida Power and Light, Harold Jackson, a shift supervisor, monitors a computer that tracks lightning strikes.*

In becoming the first non-Japanese company to win a Deming Prize—Japan's prestigious international award for quality—Florida Power and Light Co. has taken a giant stride toward its goal of reigning as America's best-managed public-service business. The Miami-based company, one of the nation's fastest-growing electrical utilities, with 3 million customers and 13,000 employees, has pursued its vision with singular determination for nearly a decade.

While quick to admit that "we are not a perfect company," FPL officials convinced the Deming judges that the investor-owned utility has improved dramatically since the 1970s, when it often was faulted for soaring rates, long service outages, and frequent customer complaints.

The Deming judges, relying on massive documentation and on-site inspections, spent 18 months scrutinizing FPL's management processes and its delivery of services before awarding the prize to the company in November.

Each year the Japanese Union of Scientists and Engineers gives the Deming prize to one or more companies that meet the group's stringent criteria. The prize is named for W. Edwards Deming, an American management authority whose concepts on quality control were embraced enthusiastically by Japanese industries decades ago. Only since 1988 have non-Japanese companies been allowed to compete for the prize; there is no rule that winners be named from any particular country.

How FPL, a regulated monopoly with little apparent pressure to excel, became a benchmark of business excellence is largely a story of a quality-management pioneer whose program was met with initial skepticism, hampered by setbacks, and finally crowned by success. Its experiences in reversing its corporate culture mirror those of other companies in other industries that have sought to implement companywide quality-assurance processes.

"We made every mistake that you can make," says FPL Executive Vice President Wayne Brunetti, who oversees the company's Quality Improvement Program, or QIP, as it is known to FPL employees. "So we try to help others not to go down the same paths that did not prove effective for us."

Today, companies of all sizes study FPL's quality-team concepts. Nearly 1,000 corporate representatives thus far have attended FPL's periodic how-we-do-it seminars, offered in response to a deluge of inquiries. Florida municipalities have asked so often for guidance in establishing quality-improvement programs that the company has begun sending FPL teams to work directly with local officials, charging the localities only for the company's costs.

Also, in a step important to smaller companies particularly, the utility has launched educational and incentive programs to convince its 3,000 vendors, mostly small to midsized firms, that they will have to focus harder on quality to continue doing business with FPL. Under its newly implemented Quality Vendor Process, FPL awards bidding advantages to "vendors that adhere to quality-improvement principles and customer service." It gives additional advantages to vendors that demonstrate continued commitment to still higher standards of quality control and customer service.

All this began in 1981, when Marshall McDonald, who was then the company's chairman and is now retired, developed a strong interest in quality. His managers went along with a limited quality-improvement program, but they balked when he sought to commit FPL to a companywide effort. Some executives, including Brunetti, initially doubted that quality principles devised essentially for manufacturing industries would work for a heavily regulated public-service company.

"None of the quality experts—and we had them all visit us here—could tell us a success story involving a big service company," Brunetti recalls. "So Marshall went out and found a service business that had a very successful quality program."

That business was Kansai Electric, Japan's second-largest utility and the first service company to win the Deming Prize. McDonald invited Kansai officials to Miami, and he sent FPL executives to Japan to see firsthand what could be done. "We were amazed at what a well-run and efficient company

Donald C. Bacon is the Washington-based editor and project director of The Encyclopedia of the United States Congress.

QUALITY

Kansai was," says Brunetti. "We understood what a quality program did for them, and from then on, we had a benchmark for our own company."

To create its own quality-management program, FPL borrowed from the approaches of Kansai and several quality-driven U.S. companies. Many ideas were tried. Some were made part of the company's program, others were discarded. The result is a complex but effective program that seeks simply to provide "internal as well as external customer satisfaction through total quality control." Internal customers include FPL employees who need and expect a certain level of job performance from their co-workers.

Integral to the company's quality-control effort is the use of statistical methods to measure quality and to help locate, track, and solve problems. Thousands of employees, serving on about 1,900 volunteer teams, have learned to work with check sheets, scatter diagrams, cause-and-effect diagrams, pareto charts, histograms, and other statistical tools. "They are easy concepts to teach," says Brunetti. Employees entering teams also are instructed in making decisions, communicating effectively, and working in groups.

The idea of teams of meter readers or linemen routinely pausing from their daily work to diagram and mathematically analyze a particular service problem may take some getting used to. But employees seem to like the challenge—the number of volunteer teams is steadily increasing—and few can argue with results such as these:

- Power-line installation has been made faster and easier because of a simple template developed by a team of linemen. The device holds plastic pipe in place as cable is pulled through it. Previously, pipes would often shift, causing costly delays.
- Meter readers' dog-bite injuries have declined since adoption of a team's suggestion that the readers' hand-held computers be programmed to beep a warning when the reader punches in the address of a house known to have a dog on the premises. Because of dog bites, meter readers had been the most injury-prone employees in the company.
- Scores of valuable suggestions came forth when FPL asked each of its divisions to address a particularly challenging problem: How to reduce the number and duration of power outages, which throughout the company's history had been a major source of customer vexation. The company long had blamed its below-average performance in this area on the subtropical climate, salt spray, storms, lightning, and other natural hazards that combine to make Florida a dreadful operating environment for an electrical utility.

PHOTOS: T. MICHAEL KEZA

Team results: *Florida Power and Light's meter-reading computers, top photo, now display addresses where dogs may roam; a special dolly was designed for moving transformers.*

One FPL team recommended replacing existing transmission-line components with stainless steel to reduce corrosion from salt spray. Another team pinpointed bird droppings as a source of corrosion on some lines, thus allowing FPL engineers to devise umbrella-like protectors for the pylons.

In all, Florida Power and Light has implemented hundreds of team suggestions for quality improvement in the past few years.

The payoff has been a dramatic, nearly across-the-board turnaround in the utility's performance. FPL has not sought a general rate increase in five years. Service outages, which a few years ago averaged 100 minutes per customer per year, now average 43 minutes per year—well below the national average of 90 minutes a year.

What pleases many FPL executives most is the steady decline in customer complaints to the Florida Public Service Commission about FPL billing errors, power interruptions, and other service problems. The company had been the subject of more complaints than any other utility in Florida, averaging almost one complaint for every 1,000 customers in 1984. Now it averages less than one complaint per 4,000 customers—the best record of any utility in the state.

FPL officials agree that the program has come a long way since its inauspicious beginning. At first, FPL emphasized developing training courses and setting up quality-control teams, mostly among first-line, nonsupervisory employees. It proved to be a mistake; managers voiced complaints, Brunetti says. "First-line supervisors particularly told us that they couldn't get their jobs done because we were taking their employees out to do something once a week. Supervisors said they didn't know what those employees were doing. We had an internal revolt."

The experience provided valuable lessons, among them the need to bring all levels of employees into the program and show them how all will benefit from it.

Brunetti now advises companies just getting into quality management, "Start with the top and work your way down to middle management, first-line management, and finally to the first-line employees." He also says first-line supervisors should not be excluded from the team process, but instead should serve as team facilitators, a combination of coach and cheerleader.

FPL's initial foray into quality management, says Brunetti, also showed that in addition to team activity, it's equally important to have policies that stress external and internal customer satisfaction, that improve coordination within the company, and that concentrate company efforts on a few priorities at a time.

In some ways, winning the Deming Prize represents the end of a long journey for FPL employees. Many employees put in extra hours to expand the company's quality-improvement effort, and to prepare the Deming application and the volumes of documentation.

But somewhere along the way, Brunetti says, winning the prize became less important than the challenge of trying to meet the judges' strict demands. "In some parts of the company, we accelerated the implementation of our program by three years in six months," he adds. "Just preparing for this prize became a reward in itself." NB

Prize Achievements

The latest Baldrige Awards for quality performance went to two manufacturers that pursued one goal: customer satisfaction.

By Meg Whittemore

Urging business to renew its commitment to quality and restore America's competitive edge in the global marketplace, President Bush has said: "Quality is no accident. It is the result of a can-do, no-excuses attitude and an impatience with the status quo."

For efforts consistent with the president's theme, two companies that successfully undertook programs of quality improvement have been accorded federal recognition. Xerox Corp. and Milliken & Co., a textile manufacturer in Spartanburg, S.C., were named winners of the 1989 Malcolm Baldrige National Quality Award. Xerox regained the lead in copy-machine quality after years of lagging behind foreign competitors, and Milliken was cited for its Japanese-style team management.

The award, which is named for the late Commerce Secretary Malcolm Baldrige, promotes national awareness of the importance of improving quality management, and it recognizes quality achievements of U.S. companies. The prize was established by Congress in 1987 and is administered by the Department of Commerce. Each year, Commerce confers up to six Baldrige awards—as many as two equal awards apiece in the categories of manufacturing, services, and small business.

In 1989, 40 companies competed in all categories; only Xerox and Milliken met the competition's rigorous requirements. The previous year, just three companies made the grade. Final selections are made after nominated companies' operations are examined thoroughly. "Like past winners, Xerox and Milliken have undergone almost 400 hours of analyses and on-site inspections by teams of private-sector examiners and judges," says Commerce Secretary Robert Mosbacher.

Xerox and Milliken won through their efforts to improve customer satisfaction, which means quality products.

David Kearns, chairman and CEO of Xerox, says: "Customers are the reason Xerox exists, and if we satisfy our customers, we will increase our market share worldwide, and that means superior financial returns."

In the early 1980s, Kearns implemented a program called "Leadership Through Quality," which was aimed at increasing the reliability of the company's products and reducing the number of suppliers. Xerox has invested more than $125 million in educating employees about quality principles and getting the job done right the first time.

PHOTOS: © PAUL DERO—SYGMA

Boosting quality: *Xerox's David Kearns, above; Milliken & Co.'s Roger Milliken, far right, with President Bush and Commerce Secretary Robert Mosbacher.*

Milliken's chairman and CEO, Roger Milliken, upended his management style a decade ago and in 1981 established his "Pursuit of Excellence" program, with customer responsiveness as its core. "We had a real communication problem," he says, "and I realized that management was the problem." He streamlined company management, gave more authority to employees (renamed associates), and implemented a team approach to production. The results showed up in increased profits, less absenteeism, and expansion of markets. "Continuous education and training of our associates is the master key that unlocks the door to quality improvement every day," Milliken says.

Milliken & Co. plans to improve its quality tenfold in four years. "Our long-term plan calls for management of change," says Milliken, "and that requires enabling and empowering each and every one of our associates to make customer satisfaction their goal."

Xerox, too, intends to continue improving quality. Kearns says: "We realize that we are in a race without a finish line. As we improve, so does our competition, and the better we get, the more our customers expect from us."

No 1989 awards were made in the small-business or services categories because candidates did not meet requirements. Curt Reimann, director of the award program, says that by not making some awards, "a chill or a message is sent to industry" to work harder at improving quality.

Nonetheless, more than 60,000 application guidelines were distributed for those awards. Mosbacher says the volume shows that "American executives are interested in quality as a competitive weapon." NB

MANAGING

Cost Cuts Are In The Mail

How your firm handles its mail can affect its bottom line. Here are tips for improving the operation.

By Mel Mandell

If your company's mail-room operations are hampered by inefficiency or high turnover, it may be time to let someone else do the job.

Hiring a facilities-management firm to move the mail into and out of your company is just one of several ways you could trim costs and solve problems in your mail room, says New York-based consultant Stanley J. Fenvessy. For decades, Fenvessy has been advising corporations on the problems that arise—and solutions that can be applied—in mail-room operations.

Managing company mail is a demanding responsibility, Fenvessy says, and it also can be unnecessarily costly if the mail-room staff is changing constantly or if the task falls to workers who can't keep up with all the fast-changing choices for sending out materials.

Fenvessy notes that the list of the U.S. Postal Service's competitors is long and growing, and postal rates and regulations are complex and changeable—reasons that your mailing operations should be efficient and up to date. Moreover, Postmaster General Anthony Frank has said that postal rates are likely to jump about 25 percent next year. Thus, companies have to become especially attentive to their mailing costs—and open to ways to cut those costs.

Like companies that are hired to manage other firms' computer centers, specialists are now available for managing company mail rooms, and not all of them concentrate on large corporations as clients. Five years ago, for example, the New York City law firm of Patterson, Belknap, Webb & Tyler engaged a printing company, Charles P. Young & Co., to manage its overburdened duplicating department. The arrangement was soon enlarged to include the 400-employee law firm's mail room. The firm's office manager, Marie Klein, says the subcontracting has "worked out very well." Young picks up the firm's mail from the local post office early enough each morning so that it is on employees' desks when they arrive for work. The contractor also supplies extra workers on Mondays to cope with heavy incoming mail. Klein says the arrangement costs no more than the firm would pay if it hired a full-time manager for the same functions.

PHOTOS: © TOM SOBOLIK—BLACK STAR

Mail handling *at the headquarters of ice-cream maker Haagen-Daz is accomplished by workers from Manhattan-based Archer Services.*

Another satisfied customer of a facilities manager is Sue Considine, administrative-services manager for Haagen-Daz, the ice-cream maker. Since mid-1988, Archer Services has managed the corporate mail room that serves the 145 Haagen-Daz employees. "High turnover," which was Considine's biggest mail-room headache, has ended, although Manhattan-based Archer sometimes has problems finding people to work in suburban Teaneck, N.J., where Haagen-Daz is headquartered. When the mail volume is light, mail handlers are assigned to maintenance and office-moving tasks.

Facilities managers and mail-room specialists such as Fenvessy have developed recommendations for efficiently running a mail room. Among them:

The mail room should be convenient to the shipping dock and to the employees. This encourages employees to bring urgent mail such as outgoing invoices to the mail room earlier in the day. Such mail that is delivered to the local post office by early afternoon—before the big evening peak—usually will reach addressees a day or two earlier than late-afternoon outgoing mail.

Being near the shipping dock is desirable, says Fenvessy, because company mail should be picked up and brought to the mail room hours before clerical em-

Mel Mandell is a free-lance writer in New York City.

ployees start work. Then it can be sorted and delivered to addressees' desks before they start their working day.

Equip the mail room with appropriate machinery and furniture. Avoid the makeshift tables so often found in mail rooms. Proper furniture is designed so that employees can avoid muscle strain regardless of whether they stand or sit while they sort and pigeon-hole mail. Depending on the volume of mail, machinery to slit open incoming mail and stuff outgoing envelopes may be needed. Firms that seldom have heavy promotional mailings can simply turn such chores over to a mailing house.

Buy or assign a microcomputer for the mail room. This will permit the employees most involved—the mail-room personnel—to update mailing lists and prepare the detailed documentation associated with shipping parcels via the U.S. Postal Service, United Parcel Service, Federal Express, and other carriers.

Powerful computers and programs can be obtained at bargain prices. For example, Desktop Direct Mail, Fresno, Calif., offers software called PostAge on a CD-ROM for $195. This program, which includes a large database, assigns carrier-route codes to computerized address records for the entire U.S., entitling the user to postal discounts.

Salvatore J. Stabile, director of facilities management for Choice Management Systems, a New York company that manages mail rooms, urges companies to use computers to organize mailing lists by ZIP code. This permits easy bundling of outgoing mail, which earns additional discounts and speeds delivery. Otherwise, expensive machinery or a sorting service is needed to achieve these discounts. Postmaster General Frank has pledged that these discounts will be expanded when postal rates are raised again in 1991.

With the right equipment, well-managed mail-room personnel can effect enough savings to recoup a firm's investment in that equipment.

For example, by means of inexpensive microcomputer software, you can add bar codes to all computer-generated labels, enabling the Postal Service to sort such mail automatically without any labor, thereby reducing your mailing costs by a half cent per item. (Your return envelopes should also include your address in bar code. The postmaster general notes that many smaller companies still neglect to put bar-coded addresses on return envelopes, even though doing so does not increase costs of printing a company's name and address on the envelope.)

Store mailing lists in inexpensive PCs with hard disks. Thousands or tens of thousands of addressees now can be stored in this manner, which enables a firm to save mailing costs by practicing "list hygiene"—the purging of extraneous names. According to Postmaster General Frank, company

PHOTO: ©KATHERINE LAMBERT

A firm loses *money when its mail room is inefficient, says Postmaster General Anthony Frank.*

mailing lists on average include about 10 percent waste, such as duplicate listings and addresses for people who have moved, retired, or died. Frank says list hygiene can help minimize postal-rate increases, because all first-class mail to businesses that have moved must be forwarded. Even though readdressing is now being automated, it still costs post offices about 40 cents to readdress and handle each item.

Computers can't always tell mail-room personnel the best ways to send items, of course. That's where experience counts—for example, knowing that Priority Mail, costing $2.40 for the first two pounds, moves a package of up to two pounds with the same handling as first-class mail. And for heavy promotional mailings, an experienced mail handler would know to engage a presort service bureau to bundle third-class promotions with those of neighboring companies to gain a good percentage of the savings associated with presorting.

Find ways to streamline clerical operations. A lot of time and money can be saved by enabling mail-handling clerical workers to operate most efficiently. In fact, experts say, the labor-cost savings from a better system for responding to customer correspondence can far outweigh the savings in postal charges.

If your clerical workers handle many queries and complaints from customers, Fenvessy emphasizes the need for speed of response. This means using form letters and form postcards whenever possible. If a preprinted reply is not possible, a brief and neatly handwritten note on the customer's letter, or a quick phone call, should be satisfactory—and time-saving for your workers. And if the sums involved are not large, your company need not keep copies of responses, says Fenvessy. If a customer later refers to a prior letter, he adds, just take the customer's word for it. It's a lot less expensive than crowding your office with costly file cabinets for copies of correspondence that probably never will be needed again.

Include invoices instead of shipping lists with all shipments. This accelerates cash flow and saves on the mailing of invoices after preparation of shipping lists, and customers prefer this cost-cutting approach, since it reduces their paperwork. They don't have to file shipping lists for subsequent matching with invoices. If you can't prepare invoices quickly enough to go out with shipments, consider using your computer to consolidate by month all invoices addressed to the same customer. This saves on postage and envelopes.

Get to know your local postmaster. Postmaster General Frank makes this suggestion, especially for companies that from time to time send out unusually heavy or odd-sized promotional mailings. The local postmaster, Frank says, may be able to recommend a cost-saving way that hadn't occurred to you for handling that mail. Such efforts, Frank says, can add up to visible improvements not only in your mail-room operations but also in your bottom line.

"Businesses can make a lot of money with smart mail handling," he says, "and, conversely, lose a lot through mishandling." NB

To order reprints of this article, see Page 70.

For More Information

Account executives for the U.S. Postal Service and the many vendors who supply mail-room equipment and services can provide useful, easy-to-follow brochures on every aspect of mailing.

For instance, you can obtain the Postal Service's 42-page booklet called *A Guide to Business Mail Preparation* by contacting your local post office.

If you would like to receive a free copy of the Hamilton Sorter Co.'s 33-page brochure titled *Mailroom Design Guide*, call (513) 870-4400.

Overcoming Workers' Doubts

Employees' concerns about the effectiveness of your methods can be overcome if you are convincing.

By Ferdinand Fournies

As you know, most people at work do most of what they are supposed to do most of the time. They are cooperative, hard-working, and dependable.

Some employees do even more than they are supposed to do: They arrive early and stay late; they are nice to have around.

But there are those few bad performers who don't seem to do anything right. Unfortunately, there are also those occasions when even the good performers do it wrong or not at all.

Have you ever asked yourself, "Why don't they do what they are supposed to do?"

Don't feel bad if you didn't get a good answer; most managers are unable to answer that question.

You are showing an employee how to do something your way, and the response is something like:

- "O.K., I'll try it, but I don't think it will work."
- "Aren't we opening a can of worms?"
- "That is a nice idea in theory, but I have to operate in the real world around here."

When employees think your way will not work, they have a logical reason for not doing it your way. This usually occurs as a problem when employees are new to the job or when you introduce a new approach or technique to someone who has performed that task for a long time.

The Problem

This problem does not refer to those rare situations when your way, in fact, will not work. If that were so, employees would be right in not doing it your way. It also does not refer to a task neither one of you knows how to do and your way may possibly not work. It refers to occasions when your way is effective but your employees do not believe it.

For example:

- You tell your sales representative that he or she must close each sale by actually asking the customer to buy your products. But the representative says, "Asking customers to buy is backing them into a corner; it will make them angry and make it harder for me to see them in the future."
- You tell your subordinate supervisor that if she verbally compliments an employee's small improvements in performance although performance is not yet up to standard, the employee's performance will most likely continue to improve. But she says, "Doing that is condoning substandard performance and will encourage employees to perform below standard."
- You tell your credit supervisor that if he does not argue with complaining customers, they will calm down. But he says, "To do that is presenting a weak position and will encourage them to argue more."
- You tell your technician that making detailed notes after each step in his experiments will not take much time and will provide a more accurate record. But his expressed point of view is, "Doing that will slow me down." So he makes inaccurate notes after the experiment is finished.
- You tell your customer-service clerk that the new computerized order-entry system will speed up the handling of customer orders. He says, "It takes too much effort to enter the order, and the old system guarantees you never lose customer information."

When you are trying to get employees to do things new to them, ask them to present their opinions about the task or project. If your employees really think it will not work, you want them to express that opinion so you can deal with it before the work begins.

Preventive Solutions

- When you are trying to get employees to do things new to them, ask them to present their opinions about the task or project. If your employees really think it will not work, you want them to express that opinion so you can deal with it before the work begins.
- The burden of responsibility is on you, the manager, to explain convincingly why your way will work. You are required to be convincing; merely telling them is not good enough. You have to sell them.
- Preventing this problem with new employees is easier because what they think will not work is usually something your experienced employees have been doing successfully for some time. Simply present the proof that your way worked.

Preventing this problem with experienced employees whom you want to do something differently may be more difficult. If "your way" has ever been successfully done before, you must present proof that it works. If it has never been done before, present the information you have that leads you to expect it will work. In both situations, first explain in detail why it must be done your way, and present your proof.

- As a last resort, if you cannot convince your employees that your way will work, ask them to try it your way, and announce that you will take full responsibility for the outcome. If the outcome is as successful as you expect, they will have proof that your way works. If you use this latter approach, however, be sure to watch their initial performance closely so employees don't deviate from your way—causing failure and then blaming your method for the failure. **NB**

Ferdinand F. Fournies is president of the management consulting firm F. Fournies and Associates of Bridgewater, N.J., and also is author of Coaching for Improved Work Performance, *published by TAB BOOKS Inc.*

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Small-Business Computing

What's new and useful about an increasingly essential business tool.

PRINTERS

PHOTO: ©HEWLETT-PACKARD

The HP Laserjet IIP, *a 4-ppm printer from Hewlett-Packard, lists for $1,495.*

A Laser In Every Shop

Laser printers have been the quality printers of choice for those who could afford them for several years now. However, analysts and buyers have held out the $1,000 price barrier as a magic figure that would move laser printing into the mainstream. Now Hewlett-Packard has stunned other printer manufacturers by unveiling a feature-laden model that comes very close to that price.

Although the new HP Laserjet IIP lists for $1,495, you can expect to see street prices for the 4-pages-per-minute (ppm) model at or under $1,000. Previously, the lowest discounted price for a laser printer was about $1,500.

Other companies making news with less expensive models are Toshiba America Inc. and Seiko Epson Corp. They have introduced 6-ppm models that list for $1,899 and use a new laser print engine manufactured by Tokyo Electric Corp. Also in the competition, Canon, the company that manufactures the laser print engine for HP, has introduced the LBP-4. This printer lists for $50 more than the IIP, but has a much richer set of features, including built-in scaleable fonts, which allow users to choose the size of type font they'd like.

Viewed collectively, these new models are likely to initiate a significant change in the balance of the printer market. Until now, if you wanted high-quality printing but couldn't afford a laser printer, you had to consider either an ink-jet printer, like the HP DeskJet, or a high-end dot-matrix printer. While those options are affordable, they can't match the combination of print speed, output flexibility, and quiet operation that a laser printer offers.

"What I expect to see eventually is the very high performance 24-wire dot-matrix printers being sold only into specialized niches that require multipart forms," said Michael Weiss, president of MWA Associates, a research firm based in Palo Alto, Calif. "Immediately I expect to see the price of products go down so that the price/performance ratio of dot-matrix products will become more attractive."

In the meantime, if you have been settling for a dot-matrix printer on your desk, this might be the time to move up to a laser printer. At under 25 pounds, both the size and the weight of the new HP IIP are well under those of most 8-ppm (standard speed) laser printers. While that makes the product more attractive as a single-user desktop product, more significant is the price—only about $200 more than a high-end dot matrix-printer.

Will prices go lower? Probably not for a while, say most industry pundits. Since HP buys engines in greater volume than anyone else, it is unlikely that any other vendor in the market for engines will beat HP on price. However, industry rumors, so far unconfirmed, say that there are lower priced engines in the works.

—Jon Pepper

HAVE A QUESTION?

We'll Try To Help

If you are stumped by a small-business computing question, we might be able to help.

In this column, we will answer questions that we think will apply to a number of other business people.

Send your questions to "Small-Business Computing," *Nation's Business,* 1615 H Street, N.W., Washington, D.C. 20062.

WORD PROCESSING

An Electronic Editor

Grammar checkers have been around for some time, but they have only recently started to be truly helpful. They tried to be all things to all people, and so they couldn't get specific. And, sometimes, they were, well, rude in their suggestions.

RightWriter has a new version that focuses much more than in the past on business writing. It works well with most writing programs, and it gives you choices and suggestions that go beyond grammar and punctuation to tagging cliches, awkward phrasing, passive voice, and problem words.

At the end of each document it checks, RightWriter appends a few indices: readability, strength, use of adjectives and adverbs, and jargon.

There is even a general critique, though telling you to use "fewer weak phrases" is not helpful if you don't know what a weak phrase is. RightWriter 3.1 lists for $95.

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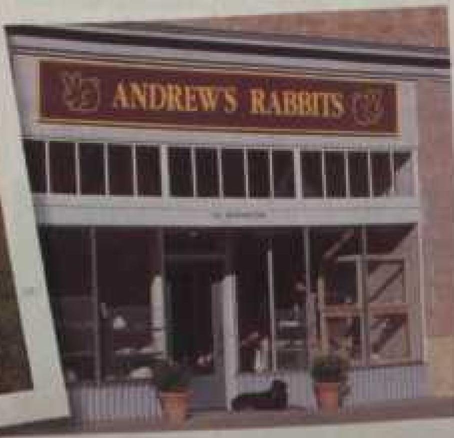

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BUSINESS IN EDUCATION

Business Writes A New Lesson Plan

By Tait Trussell and Joan C. Szabo

In the Lehigh Valley area of eastern Pennsylvania, the business community has joined with educators to develop a broad program of basic reforms in the education system. Lehigh Valley's program parallels educational endeavors elsewhere in the nation, where communities are responding to the growing demands for able workers and for the U.S. to remain competitive internationally. The Lehigh Valley Business Education Partnership consists of 20 area public-school superintendents, 25 chief executive officers of the area's larger corporations, and the presidents of 10 local colleges and universities.

Plans call for even broader representation of those concerned with education reform. Task forces on specific issues will include representatives of teachers, students, parent-teacher associations, and local governments within the region.

The prime mover in the organization of the partnership is Edward Donley, chairman of the executive committee of Air Products and Chemicals Inc., Allentown, Pa., and a pioneer in the campaign for business action to deal with problems of the nation's school system.

The partnership's aim, says Donley, is to bring community representatives together to reach an agreement on a broad program of educational improvement for the entire area.

In addition, several leading business organizations have formed the Business Coalition for Education Reform to work for improvements in the quality of public education throughout the country.

While business support of education has traditionally been strong, particularly at the local level, these recent developments reflect a shift in the focus of those efforts; the concentration has often been on assistance to individual schools and students, and now it is being directed at reform of the basic structure of public education.

William H. Kolberg, who is cochairman of the coalition and president of the National Alliance of Business—itself a coalition member—plans to "encourage business leaders to become more involved at state and local levels, not in 'feel-good' endeavors, but those directed at systemic change." He explains that "quick fixes and marginal changes have not worked. Adopting a school or a class, as some companies have done, does little to improve the overall school system."

The Business Coalition for Education Reform is made up of the U.S. Chamber of Commerce, the Committee for Economic Development, the National Alliance of Business, the Business Roundtable, the National Association of Manufacturers, the Conference Board,

PHOTO: T. MICHAEL KEZA

The year-round program *at Parry McCluer High School, in Virginia, was advocated by James Bradford Jr., left, and R.J. Fabrizio, right.*

Efforts by companies to help individual schools and students have had mixed results, so the focus is shifting to reform of the basic structure of public education.

the American Business Conference, and the U.S. Hispanic Chamber of Commerce.

Business initiatives in support of education reflect concerns ranging from the availability of entry-level workers with basic skills to the need for the U.S. to function in a world market that is becoming increasingly competitive.

A key factor in this business involvement is the high cost of educating workers. "U.S. companies realize that the money they spend educating workers can be trimmed if workers are educated correctly the first time," says William F. Glavin, the recently inaugurated president of Babson College, in Wellesley, Mass., and former vice chairman of Xerox Corp.

Business estimates that if industry's problem of continuously having to upgrade the skills of workers is not corrected, the $30 billion spent annually by companies on worker training and retraining will increase dramatically.

Many experts say that without serious efforts at reform, the current educational crisis will become more acute in the future. If current trends continue, according to some estimates, by the year 2000, 70 million Americans will be functionally illiterate. That means they will have attained less than an eighth-grade level of education. These individuals will be unable to meet the rigorous demands of an increasingly more complex work environment.

While many business people have seen positive results from the adopt-a-school programs and other efforts aimed at helping specific institutions, contributions of others also demonstrate the effectiveness of reforms aimed at structural problems of entire school systems. For example, R.J. "Bob" Fabrizio, owner of Courtesy Motor Co., the Ford dealership in Buena Vista, Va., has proof that his efforts at school reform have helped to reduce the high-school dropout rate in his area, and to boost the academic performance of high-school graduates.

When Fabrizio chaired the school board in Buena Vista 20 years ago, he decided to explore the feasibility of establishing a year-round school program.

Working with the superintendent of schools, James Bradford Jr., Fabrizio helped launch a chain of events that led to a drastically revised curriculum in an extended school year for the 400 students of Parry McCluer High School in Buena Vista.

The year-round school program is divided into three 60-day quarters, plus a summer quarter that is tuition-free. Transportation for the summer program is available to students at no charge. Although the summer quarter is voluntary, more than 50 percent of the high-school students consistently have enrolled for educational enrichment, acceleration, or remedial work.

The year-round school program has produced dramatic results. More than 95 percent of the Buena Vista District students now receive high-school diplomas—a percentage far higher than the nationwide figure of 70 percent.

In addition, testing of Buena Vista's 11th-graders by Science Research Associates, a nationwide firm, showed that improvements in student performance exceeded national averages.

Moreover, Bradford notes, "the high school has almost doubled the percentage of youngsters going off to college."

In Florida, businessman Bob Alligood decided to work to improve the math, science, and computer skills of youngsters in his state. President of DeLay, Thompson, Alligood, and Beck, a business-consulting and financial-planning firm in Jacksonville, Alligood has been involved in educational reform for nearly a decade. Several years ago he stepped down from his chairmanship of the Florida Chamber of Commerce Educational Coalition to chair a special task force on mathematics, science, and computer education, under the auspices of the Florida Education and Industry Coalition of the state chamber of commerce. The task force was composed of business people and educators.

Florida has nearly 2,000 high-tech companies employing more than 150,000 people. Although the number of such jobs has increased nearly 250 percent in the past decade, the results of a 1987 Florida State Student Assessment Test showed that no more than half of Florida's 11th-graders could calculate

PHOTO: ©JUDITH GEFTER—BLACK STAR

In the computer lab *of Holiday Hill Elementary School, in Jacksonville, Fla., Bob Alligood helps youngsters improve their skills.*

BUSINESS IN EDUCATION

interest on a loan, change a decimal to a percentage, or convert square yards into square feet. And despite the state's need for people with technical know-how, at that time the state was producing only 18 percent of the math teachers and 9 percent of the science teachers it will need in the near future.

In a world increasingly dependent on technology and scientific literacy, "our educational system couldn't afford to be second-best," says Alligood.

For nearly a year and a half, the task force gathered data and developed recommendations. The task force's comprehensive plan, published early in 1989, listed more than 100 proposals. It focused on such broad goals as strengthening the curriculum from kindergarten through 12th grade and improving students' abilities to reason scientifically and to understand connections among mathematical and scientific principles. Another objective is a 10-year implementation schedule for reforms, which will be overseen by an advisory unit of educators, business people, and others.

This past fall, Florida's 67 school districts began implementing the reforms in math, science, and computer learning as recommended by the task force and its parent organization, the Florida Education and Industry Coalition of the state chamber of commerce.

The 1989 session of the Florida legislature enthusiastically adopted major portions of the comprehensive plan. It established an advisory council to help implement the math, science, and computer education reforms.

The new law also calls for evaluation of math and science textbooks, and it establishes a scholarship program to enable teachers to work in business or industry to acquire firsthand experience in technology. It authorizes partnerships with the private sector to improve math and science, creates a program enabling elementary schools to hire mentor teachers to help other teachers with math and science instruction and to improve curriculums, and it provides funds for laboratory materials and equipment.

Florida's Department of Education now is developing a model math, science, and computer-education curriculum for kindergarten through fifth grade based entirely on the recommendations of the comprehensive plan drafted by Alligood and other business people from all over the state.

In Chicago, Irving Harris, chairman of the executive committee of Pittway Corp., a family-controlled electronics company, is directing an education-reform program designed to deal with what many experts describe as one of the major challenges of systemic change—the social problems that affect vast numbers of disadvantaged students before they even enter a classroom. His Ounce of Prevention Foundation operates in one of Chicago's largest public housing projects, where drug abuse, teenage pregnancies, and crime are rampant.

Services at the Center for Successful Child Development, an affiliate of the Ounce of Prevention Foundation, include primary health care, special programs for teen parents, Head Start (the federal early education and development program), home visits, maternal and infant nutrition, and drug-abuse education.

The center also offers a family drop-in center that provides counseling and parent modeling, in which young parents who have not had the example of good parents are shown how to be effective parents themselves. More than 150 families are taking part.

"Nobody has ever worked with such poor people before, and we still have an enormous amount to learn," Harris says. Last fall, hundreds of communities nationwide competed for federal grants from a $20-million program aimed at encouraging early-childhood intervention programs modeled on the project that he launched.

While most business people do not run foundations, there are many ways they can contribute to achievement of basic education reforms, education experts say. For example, businesses could take actions such as these:

- Help develop community education goals and then mobilize other business people, parents, students, and the community generally to achieve those goals.
- Lobby for education reforms at the local, state, and national levels.
- Use entrepreneurial know-how to help local schools recruit quality teachers, improve management practices, and develop long-range plans.
- Provide practical work experience to young people in after-school or summer work-study programs, thereby helping determine the adequacy of school systems in preparing students for the workplace.

No matter what steps they take, business people are learning as well as providing know-how. As Glavin of Babson College puts it: "In the past, business people didn't think they could have an impact on educational reform. That perception is changing. There is a new recognition on the part of business people that they can make a difference." NB

Tait Trussell is a free-lance writer in Leesburg, Fla.

PHOTO: © NICHOLAS DEVORE III—PHOTOGRAPHERS/ASPEN

JAPAN

By Nabuko Hashimoto

As major trading partners, Japan and the U.S. have been wrestling for decades with the problem of trade frictions, which have been narrowed to specific industries such as textiles, steel, automobiles, and electronics. As the economic situation has changed globally in the past few years, with Japan emerging as a world economic power, the nature of U.S.-Japan trade talks also has shifted and become more complex.

Until a few years ago, the talks were focused on reducing Japanese exports to the U.S. and increasing direct investments. Now, most companies are, in fact, exporting much less and expanding their production facilities abroad.

In 1988, direct Japanese investments in the U.S. totaled $53 billion, double what their level had been in 1986, according to official Japanese figures. As Japanese purchases abroad became more noticeable—particularly when they involved well-known firms such as Columbia, the entertainment company, or famous places such as Rockefeller Center in New

A Word From The Welcome Cat

Welcome Cats are often seen in Japan.
Good luck charms whose paws are raised in greeting,
these cats are supposed to help bring customers to a business.
They also represent traditional Japanese mercantile values:
proper treatment of customers and an open door to all.
We, 18 of Japan's Sogo Shosha,
are heir to these values,
even in this age of internationalization.

"Japanese are aggressive exporters, but listless when it comes to imports." This seems to be the average American's idea of Japan.
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JAPAN

Good Citizenship Is Good Business

York City—the reactions of Americans have become more emotional.

The Japanese are noticing the change and are seriously concerned about resolving the conflicts in a rational way. Says an official of an equipment-manufacturing company: "Before, the Americans told us to open our markets to this or that product. Now, they seem to be saying that you guys are wrong because of the way you were brought up."

The top-level talks between Japan and the U.S. last fall were intended to reduce tensions through an effort to bring about structural changes in the two countries' economies. Among the main points underlined by the Americans were the gap between Japanese foreign and domestic prices, the inefficiencies of the Japanese distribution system, the restrictive trading practices of Japanese corporations, and discriminatory Japanese commercial practices against foreign firms.

PHOTO: © BEN SIMMONS—THE STOCK MARKET

The Japanese officials, on the other hand, countered with their list of problematic points, which included "excessive" consumption and too little savings by Americans, the tendency of U.S. firms to focus on short-term results, the lack of investment and productivity of U.S. companies, and the failure of the U.S. to promote its exports.

Economic structures are inherent in a nation's traditions, and therefore such structures cannot be changed easily overnight. Although no one is expecting miracles, an effort to solve these problems would help the future of one of the world's most important bilateral relationships.

Therefore, it is no coincidence that a major business group, the Keizai Doyukai (the Japan Association for Corporate Executives), headed by Takashi Ishihara, chairman of Nissan Motor Co., recently developed guidelines for Japanese companies investing in the U.S.—guidelines that could help reduce frictions.

While the guidelines concede that Japanese trade friction with the U.S. results largely from the changing economic environments of the two countries, it also says friction can be attributed to different Japanese management practices. An effective way to resolve the friction, therefore, is for Japanese companies to become more "international" in their outlook, the Keizai Doyukai report concludes.

Brother Industries Ltd. is setting up regional bases to manufacture goods adapted to particular markets and sell them there. "We certainly believe that this is necessary to be able to survive in the 21st century," says Masami Hanazono, the firm's senior managing director.

The report calls on Japanese management to take a number of actions. Among the recommendations:

- Stop looking to the head office; delegate more decision-making powers to overseas subsidiaries.
- Hire more foreign employees, including minorities, at overseas offices, and give them more responsibilities.
- Invite foreign senior representatives to board meetings.
- Buy more parts locally, and transfer technology to the subsidiaries.
- Participate actively in the local community.
- See to it that each Japanese employee does not discriminate between Japanese and non-Japanese workers and that each one is assimilated into the community.

Although many Japanese companies say the report does not propose anything that they haven't tried before, it is significant as the first such report by a Japanese economic association.

All of the officials of companies interviewed for this special section are trying to do their part to expand their international activities and at the same time contribute to their local communities.

Brother Industries Ltd.

Brother Industries Ltd., a leading Japanese maker of business machines, has a long history of doing business abroad. Its overseas sales activities began in the U.S. with Brother International Corp. 35 years ago. Four years later, it made its move to Europe.

When Brother started its international activities, the company had a goal of selling 30 percent of its production abroad—one-third to the U.S., one-third to Europe,

> *"If we only exported to the U.S., that would create an imbalance in trade," says Hatchoji Takashi, senior researcher at the Hitachi Research Institute. "Therefore, we're making efforts at expanding local production, increasing research and development, . . . and providing better services."*

and the remainder to the rest of the world, says Masami Hanazono, senior managing director.

Then came the electronic boom of the 1980s, and Brother's exports, along with those of other Japanese companies, increased rapidly.

The company was selling about 50 percent of its products overseas through its sales offices in 18 countries. Since then, sales have continued to be bullish abroad, especially in the field of office automation, and exports now account for more than 60 percent of the company's total net sales.

Like other companies, Brother is trying to review its strategies for overseas markets to help blunt the continuing trade frictions between Japan and the U.S. It is now trying to reverse the trend by limiting exports to 50 percent of the company's sales and at the same time focusing on increasing production abroad.

In the U.S. now, Brother has sales and marketing outlets as well as a plant in Tennessee that manufactures electronic typewriters.

In addition to the U.S., it has production facilities in Taiwan and South Korea to make sewing machines, in Brazil to make industrial sewing machines, and in Britain to make typewriters, printers, and microwave ovens.

Brother also has plans to start making typewriters and electronic components in Ireland as well as office-machine components in Malaysia.

Brother's plan is to expand overseas production capacity to 20 percent of total company output in the next few years.

Under the guidance of the Japanese Ministry of International Trade and Industry, Brother, like other major manufacturers, has also been doing its part to increase foreign imports into Japan. Through a project dubbed the "Big Link" by Brother, the firm has set a target of buying more than $70 million (U.S.) in foreign products during 1990.

For the longer term, the company has adopted a new "four-way" strategy under which it has set up regional bases in America (for North and South America),

Europe, the Middle East and Asia, and Japan. Unlike the previous structure of supplying goods from Japan to the outside market, the company will try to manufacture goods adapted to that particular market and sell them there.

"Everyone is trying to do that, and we certainly believe that this is necessary to be able to survive in the 21st century," Hanazono says. Eventually, there may even be an exchange between each of these regions, thus decreasing further the need to supply goods from Japan, Hanazono adds.

Brother's aim is to become like multinational companies such as IBM that have "localized" their management in Europe. "Take IBM Germany, for instance," Hanazono explains. "The capital is American, but the company is German with a German president as its head. . . . We hope to become like that, too."

Hitachi Ltd.

America is the biggest market for Japan's leading electronics manufacturer, Hitachi Ltd. The company's U.S. sales in the year ending March 1989 accounted for 36 percent of Hitachi's total overseas sales of 1,468,905 yen. No wonder Hitachi is doing its part to try to keep good relations with Americans.

"Of course, if we only exported to the U.S., that would create an imbalance in trade," says Hatchoji Takashi, senior researcher at the Hitachi Research Institute. "Therefore, we're making efforts at expanding local production, increasing research and development activities, and providing better services."

The company is making various efforts to reduce the pattern of direct exports as well as make its production facilities overseas more "self-sufficient." In electronics, it has started wafer production at Hitachi Semiconductor (America) Inc. as a first step toward integrated production operation.

By expanding local production, Hitachi will be providing more job opportunities to local employees, and in this way the firm can contribute to the local community, Hatchoji explains. At the same time, Hitachi has established the Hitachi Foundation in Los Angeles and in Washington, D.C., to promote cultural exchanges, thereby im-

proving understanding between Japan and the U.S.

Another important development for Hitachi in America during 1989 was an agreement signed with National Semiconductor Corp. to acquire its subsidiary, National Advanced System Corp., jointly with Electronic Data Systems Corp. (EDS). The company, renamed Hitachi Data Systems Corp., will be operated jointly with EDS and is intended to strengthen the Japanese manufacturer's position in the computer market in the U.S.

As a leader in the field of high technology, one needs to be strong in both hardware and software. Hitachi increased research and development expenditures 13 percent in the past year to $2.8 million (U.S.), nearly 6 percent of the company's total sales. The company has been engaged in joint ventures with universities in the U.S. and in Europe to finance research and development projects in the field of microelectronics.

PHOTO: ©DAVID RYAN

Like other Japanese companies, Hitachi is concerned about the tensions caused by trade frictions. Hatchoji's answer is to look at the long term. About the time the European Community was formed, many American companies were taking over European companies in the 1960s and 1970s and were becoming quite unpopular, Hatchoji recalls.

But over the long term, these American buyers have been assimilated as European companies. Japanese companies, too, need to localize and allow their local subsidiaries to be run by local people. And, in fact, the trend now is to "go local," Hatchoji says. "What's the point in taking abroad a Japanese who doesn't feel comfortable? It makes more sense to hire the people there."

Yamaichi Securities Co. Ltd.

Yamaichi Securities is one of the four leading securities houses in Japan. It offers integrated financial services on a global basis through its three main business regions—the Americas, Europe, and Asia-Pacific—each region with its own director.

In the U.S., Yamaichi has steadily expanded its business base from a representative office established in New York in April 1953. Now, Yamaichi's activities in the U.S. revolve around several main outlets—Yamaichi International (America) Inc., with branch offices in Chicago, Los Angeles, and San Francisco; Yamaichi Financial Services Inc., established over two years ago in New York for swap business; Yamaichi Capital Management Inc., also in New York, for investment management; and Yamaichi Research Institute of Securities and Economics, New York, for supplying information services.

Despite the difficult year following the precipitous Black Monday decline on the New York Stock Exchange in October 1987, when everyone had to tighten their belts, Yamaichi was the only one of the top securities houses on Wall Street not to resort to large-scale layoffs of personnel in the U.S., says Hitoshi Ishihara, senior managing director of Yamaichi Securities Co. Ltd.

Despite the difficult year following the decline on the New York Stock Exchange in October 1987, Yamaichi Securities Co. was the only one of the top securities houses on Wall Street not to resort to large-scale layoffs of personnel in the U.S., says Hitoshi Ishihara, Yamaichi's senior managing director.

In fact, Yamaichi has been pushing for "developing local talent" in its overseas offices, and in America it became the first Japanese financial company to appoint an American to a senior posting—co-chairman of Yamaichi International (America).

Japanese investments in the U.S. market have remained strong despite a sense of wariness following the big Black Monday decline and the recent decline of the Dow Jones Industrial Average, explains Ishihara. And the market is expected to grow over the long term, he adds.

Yamaichi also prides itself for being a pioneer among Japanese companies in mergers and acquisitions, and the firm showed its determination to stay active in this field through its recent tie-up with Lodestar Management Inc. Besides futures, options, and mortgage-backed securities, Yamaichi hopes to get a slice of the U.S. pension business, which is likely to grow in the future, says Ishihara.

In the European Market, Yamaichi is gradually preparing itself for unification in 1992, although the situation is still very volatile because of the democracy movement currently sweeping Eastern Europe, says Ishihara.

At the moment, Yamaichi has outlets in London, Frankfurt, Zurich, Geneva, Lugano, Paris, and Amsterdam, and it has opened representative offices in Madrid and Milan.

The fastest-growing market for Yamaichi, however, has been in Asia, because Asian countries have posted the highest economic-growth rates in recent years. While they have been extremely volatile at times, Yamaichi expects stock prices in this market to continue rising, and it is seeking opportunities for investing surplus Japanese capital in this area.

For the future, Yamaichi hopes to increase its business opportunities further through a new computerized information and investment system, incorporating advanced functions such as the Integrative Stock System, or ISS, jointly developed by Yamaichi and noted market-theory academicians in the U.S. and Japan. Since the system was introduced in the spring of 1988, Yamaichi has received a considerable amount of additional assets.

Nabuko Hashimoto is a free-lance writer based in Tokyo.

FRANCHISING

Opportunities All Around

A helping hand for the disabled, a look toward the '90s: Franchising's horizons continue to expand.

By Meg Whittemore

Helping The Disabled Become Entrepreneurs

Those who are physically disabled and would like to own a business may want to consider Heavenly Hot Dogs as an entrepreneurial opportunity.

Heavenly Hot Dogs, a franchise based in Cape Coral, Fla., sells hot dogs and beverages from either a free-standing location or, starting in 1990, a specially outfitted van. A year ago the company launched a program to offer franchises to physically disabled men and women, including those who must use a wheelchair.

Response to the program has been strong. "Right now we have 27 handicapped franchisees and more than 3,000 applications from disabled folks who want to work," says Lee Lanktree, president and CEO of Heavenly Hot Dogs. The firm also has 11 nondisabled franchisees. By the end of 1990, Lanktree expects to have 52 more free-standing franchises—both disabled and nondisabled—plus 200 mobile vans operated by the disabled.

Lanktree says his disabled franchisees make an average monthly pre-tax profit of $3,000 to $4,000. "We have a low product cost and low overhead," he says, "and our biggest problem right now is handling all the volume."

The franchises cost $52,000 for complete start-up for a free-standing unit, and up to $39,000 for the customized van. Royalties and advertising fees total 9 percent of gross sales per month. Low-interest government loans are available to disabled entrepreneurs.

Lanktree views the disabled population—about 12 million people—as an underutilized labor pool. "My motives are not altruistic or based on pity," he says. "Given today's shortage of labor, what I'm doing simply makes good business sense."

Forecast For The 1990s

Franchising is hot and growing so fast that statisticians are scrambling to keep up. The International Franchise Association has joined with the accounting firm Laventhol & Horwath to produce *Franchising in the Economy*, a look at the numbers behind the phenomenon. Some forecasts for the '90s:

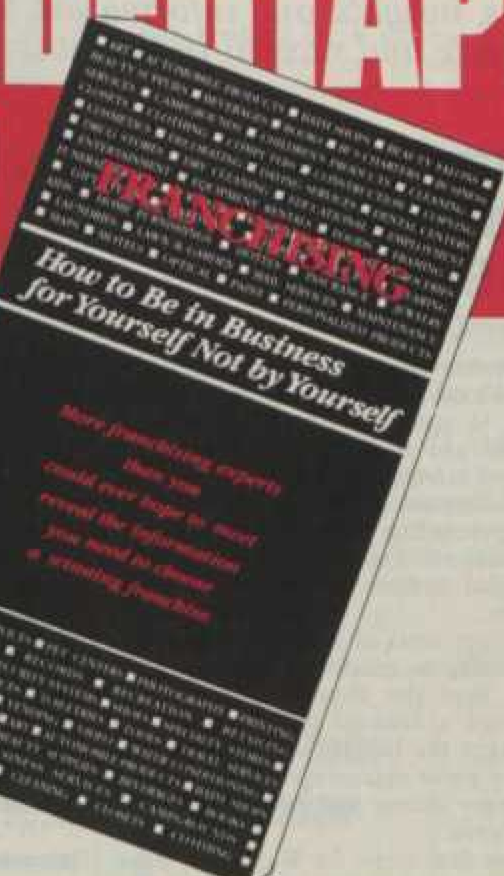
Sales from retail franchises will rise to over $1 trillion from $640 billion.

Employment by franchises will account for more than 10 million jobs, up from the current 7 million, based on the current rate of economic expansion.

Workers will be drawn particularly from those aged 40 to 60 and from the professionally seasoned.

Franchisees increasingly will come from the ranks of women, Hispanics, blacks, and Asians. NB

IF YOU'VE EVER WONDERED WHETHER YOU SHOULD BUY A FRANCHISE, THIS NEW VIDEOTAPE IS FOR YOU!



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- Biggest opportunities
- What to ask the franchisor
- What to ask your lawyer
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- How to evaluate the offerings
- Where to find financing
- What lenders want to know
- How franchisors evaluate you
- Pitfalls to avoid
- How to get off to a quick start

And much, much more!

HERE ARE JUST SOME OF THE 30 FRANCHISE EXPERTS WHO SHARE THEIR INSIGHTS!

Ron Berger, President, National Video
William Cherkasky, President, International Franchise Association
Carolyn James, Franchise Owner, 7-Eleven
Ripley Hotch, Deputy Editor, Nation's Business
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Women In Business

Ideas, insights, and information to help women compete and succeed in the marketplace.

ENTERPRISE

From Bedside To Business

By Bradford A. McKee

Katherine West quit her nursing job at an Alexandria, Va., hospital in May 1987 to open her own business as a writer and trainer in her specialized field of infection control. West is one of the estimated 15,000 nurses in the U.S. who, according to the National Nurses in Business Association, have left the hospital bedside to become entrepreneurs.

"I got tired of hospital politics and not being as creative as I was able to be," says the 43-year-old West, who wanted a broader horizon than she thought the hospital could offer. Like many nurse entrepreneurs, she sought a larger income and more prestige for her work.

The final straw for West came when her proposal to develop a set of brochures on cardiopulmonary resuscitation (CPR) and infectious diseases for her hospital was scuttled.

But Laerdal Corp., a Norwegian-based company that manufactures manikins for CPR training, was "thrilled with the idea," says West. Laerdal, which has offices in New York, bought the rights from West for a lump sum, kept her name on the brochures, and began giving them away.

Under the aegis of her company, Infection Control/Emerging Concepts, West writes books on infection control and trains emergency workers, and she has produced a video series on infection control. She earned $49,000 in 1988, $16,000 more than she was making as a nurse with two decades of experience and a master's degree.

Many nurse entrepreneurs are nurse practitioners, who usually have graduate degrees in nursing and specialize in various areas of health care. These entrepreneurs are forming a new sector of health professionals—serving consumers who are concerned about wellness.

Deborah Boehm, a nurse practitioner in Minneapolis, wanted to escape the "technical" hospital environment. "I don't like to start IVs [intravenous solutions] or draw blood," says Boehm,

PHOTO: ©TIM KELLY—BLACK STAR

Enterprising nurse *Katherine West trains emergency workers under the aegis of her 2-year-old firm.*

37. "I'm more interested in finding out what exercise and nutrition mean to people."

She left hospital nursing in 1982 to open Women's Health Care Associates, a clinic she owns with three other women; one of them is a nurse practitioner; the other two are physicians.

Ted Ritter, a 38-year-old nurse practitioner who in 1982 opened the Duvall Family Health Clinic in rural Duvall, Wash., says owning his own business lets him get to the marrow of nursing—putting people before paperwork and housekeeping chores.

"I have little patience for changing bedpans," Ritter says. "I can do a lot more good just talking to someone."

A new genre, the nurse attorney, is gaining popularity as nurses couple their clinical expertise with law degrees. Katherine Pohlman, president of the 400-member American Association of Nurse Attorneys, headquartered in Baltimore, says nurse attorneys work mostly on medical malpractice or act as legal advisers to hospital management.

Pohlman says a nurse with a law degree not only can earn a higher income but also can attain something that many want even more: receptivity to their ideas.

When nurses vent their grievances about their profession, Pohlman says, "money is always an issue, but not always the first one cited." According to Pohlman, "It's the role of the nurse, the judgments a nurse has" that beg greater recognition.

Nurses' training both helps them and hurts them in business, says David Norris, president of the 600-member National Nurses in Business Association, based in San Rafael, Calif. "It helps in that they pay attention to details. It hurts because taking risks involves some sense of jumping in with both feet"—scarcely the philosophy of the critical-care unit where Norris once worked.

Katherine West jumped in with both feet last year when she was promoting her new video series. A review of the series was about to appear in the *Journal of Emergency Medical Service*, and West wanted to mention it in a certain direct-mail campaign. But the mailing had to go out before she would know what the review would say. She went ahead anyway—announcing the unseen review in her promotion piece. Luckily, the review turned out to be flattering.

"I took a big risk, but that's the name of the game," says West.

Like most nurse entrepreneurs, West has learned along the way how to market herself and her service. By training and experience, she says, nurses are "very good organizers and time managers, and we follow through consistently.

"That translates very well to business."

For More Information

The National Nurses in Business Association can be contacted at 4286 Redwood Highway, Suite 252, San Rafael, Calif. 94903. The address of the American Association of Nurse Attorneys is 113 W. Franklin St., Baltimore, Md. 21201.

SURVIVAL

PHOTO © RICHARD DERK

Quick recovery: *Chicago stationer Barbara Ruben was back in business four months after a fire destroyed her original store.*

Back From Disaster

By Kara Finnegan

Chicago businesswoman Barbara Ruben says she "cried every day for a month" when her store, Write Impressions, was destroyed by a fire.

But she did more than cry. Within two weeks, Ruben had signed a lease at another location, and in less than four months she had reopened her business in a space twice the original size.

Ruben started Write Impressions, a stationery store for upscale customers, in 1980. A former schoolteacher, she had come up with the idea for her business two years earlier when she sought but could not find in downtown Chicago the "distinctive" kind of party invitations she wanted.

Specializing in invitations for all occasions and carrying a wide selection of greeting cards, gift items, and desk accessories, Write Impressions caters to both individual and corporate customers. It will customize everything from matches to cake boxes.

Although Ruben does not disclose sales figures, she says that December 1988 concluded the biggest month and the biggest year ever for Write Impressions.

But on the afternoon of Jan. 17, 1989, an electrical fire wiped out the floors above Write Impressions; smoke and water devastated Ruben's merchandise and computer equipment.

By evening, Ruben was on the phone with a commercial real-estate agent. "We knew that it would take time for us to get back into business, and we didn't want to lose one minute," Ruben says. Within a week, she had decided on a new location in Chicago's trendy River North district. Several factors helped make Ruben's quick recovery possible:

- Adequate insurance, including business-interruption coverage. "We had very good insurance," she says. "We had done it right the first time."
- Experience. When you're starting over, Ruben points out, you're doing what you did before, but you're refining it. Retail-design specialist Fred Wiedenbeck Jr., who had designed the original store, was brought in to create the dramatic look of the new one. He already knew Ruben's preferences and requirements, and this time he was able to build more efficiency and flexibility into the design.
- Foresight and planning. The possibility that the 100-year-old building that housed the original store might be torn down to make way for a new structure prompted Ruben to make herself familiar with the real-estate market. When disaster struck, she had already gathered vital information such as current real-estate prices, what she could afford, and the amount of space she would need. She was able to decide on the new space within a week of the fire. Looking back on her experiences, Ruben says it's important to keep in touch with what's going on in the commercial real-estate market.

Ruben emphasizes that emergency decisions must be made as objectively as possible. When she was considering the new location, she asked herself, "If the fire had not occurred, would I be happy with this decision?" The answer was—and still is—yes.

Her advice to someone faced with a disaster is never give up. "You have to have strength of mind and fortitude to pick up and start over," she says.

Where did hers come from? She says: "I love what I do, and I worked very hard to make it successful. I didn't want to see eight years go up in smoke."

Kara Finnegan is a student and freelance writer in Hanover, N.H.

HONORS

Awards For Entrepreneurs

Avon Products Inc. is seeking five successful entrepreneurs to honor in its fourth annual Women of Enterprise Awards program.

Each award winner will receive $1,000 and an all-expenses-paid trip to New York City to attend an awards luncheon in June.

Candidates may be nominated by an organization or may apply directly. To qualify, they must have been profitably self-employed for a minimum of five years and must have overcome a significant personal or economic hardship to achieve success.

Applications are due Feb. 1, 1990. To receive an application, send a self-addressed, stamped (65 cents), 9x12 envelope to: Women of Enterprise Awards, Avon Products Inc., 9 W. 57th St., New York, N.Y. 10019.

Mark Your Calendar

Feb. 24, New York

Tenth National Conference for Women in the Businesses of Fashion, Beauty, Fitness, Food and Home Fashion. More than 50 workshops cover such topics as how to start a business or improve an existing one and functioning in the corporate world. The conference is sponsored by the American Woman's Economic Development Corp. and Murdoch Magazines. For information, call 1-800-321-6962; in New York City, 692-9100.

March 15-17, Dearborn, Mich.

"Going the Distance: Positioning Your Company for the 21st Century" is a conference for women business owners. It will focus on start-up, growth, and expansion, and it aims at giving entrepreneurs an understanding of how to sustain their businesses through the changing economy of the next decade. Sponsors include the Michigan Department of Commerce and the U.S. Small Business Administration. For information, call Zina Kramer at Events Marketing; (313) 540-6688.

MANAGEMENT

Companies Court Women For Boards

Recent studies indicate that women are making gains in the corporate boardroom.

In its 16th annual study of boards of directors, Korn/Ferry International, an executive search firm with headquarters in New York and Los Angeles, found that a record 58 percent of the boards surveyed have at least one woman director, up from 45 percent in 1984.

And in its annual survey of women on corporate boards, Catalyst, a New York research and advisory organization, found that each of the top 10 U.S. industrial companies has at least one woman director. These top 10 average nearly two women per board. Philip Morris is the leader, with four women directors.

Financial institutions and retailers reported the highest number of women directors, according to Korn/Ferry. They come primarily from academic institutions or are chief executives or chief operating officers at other companies, the executive search firm's study found. The study is based on a survey of 458 corporations; 66 percent of them are industrial and service companies. The rest are financial institutions, insurance companies, and retail firms.

In a report last summer, Catalyst said that "many companies are so eager to reap the benefits of some female board candidates' talent that they are willing to appoint a director who has little or no prior board experience, who is not a CEO, and who is considerably younger than the average male age of 60."

According to Catalyst, women directors "provide powerful role models for company women and show potential female recruits that upward mobility in business is unlimited."

The Korn/Ferry study showed that outside directors earned an average of $28,219 in 1988, up 10 percent from the year before. But outside directors work for their pay; 35 percent of directors say they spend more than 191 hours a year on board matters, according to the survey. "It's no wonder that nearly one out of four prospective corporate directors declines an invitation to serve on a board," said Lester B. Korn, chairman of Korn/Ferry.

Catalyst offers a service that helps companies identify qualified women to serve on their boards. For information on the program, called the Corporate Board Resource, contact Leslie Levin, Catalyst's marketing vice president, at Catalyst, 250 Park Ave. S., New York, N.Y. 10003-1459; (212) 777-8900.

THE MOMMY TRACK

"There Must Be Children"

Margaret Hennig and Anne Jardim are the authors of a noted 1977 book, *The Managerial Woman.*

They also are the founders and deans of the Simmons College Graduate School of Management, in Boston. It is the only school in the nation that offers a master's degree program in business administration designed specifically for women.

In a recent statement, Hennig and Jardim point out that the "career-primary" woman described by Felice Schwartz in the *Harvard Business Review* article that set off the recent "mommy track" controversy is the same woman who was seen as the ideal woman executive back in 1970: She married late, if at all, and she never gave birth to children.

"Surely, for all of our sakes, we have come a long way down the road since then," Hennig and Jardim continue. "The concern for all of us is that we still have a long way to go.

"On that journey there must be children holding women's hands. For that to happen, as it must, we need a new understanding of men, women, and work which will most likely bring into question the most fundamental ways in which corporations have been structured and management has been practiced and rewarded."

Hennig and Jardim call for changes that will result "in a new organization which has the ability to attract, accommodate, train, motivate, and advance the brightest and the best from a variety of groups, while nurturing and cherishing the real value of the diversity which they represent."

They conclude: "To us it is not a question of fitting women to the organization, but rather understanding that women's voices can lead us to seeing what the new organization should be." ■

LESSONS OF LEADERSHIP

Working On The Railroad

Gene Harmon has built his father's "custom engineering firm" into a high-tech leader in a resurgent industry.

By Michael Barrier

PHOTO: ©CHUCK KNEYSE—BLACK STAR

The Harmons. *Bob and Gene, view some of the railroad ties that Harmon Industries recycles at Kansas City.*

A few months ago, in Kansas City, Kan., lightning struck a pile of railroad ties at a factory near Kemper Arena. The blaze consumed 50,000 ties.

Reporters asked the owners of the ties how many millions of dollars had gone up in flames.

The puzzling answer: None.

"We didn't lose any money," says Robert E. "Gene" Harmon, "because the railroads are giving the ties to us. And the railroads didn't care, because their objective was to get rid of the ties. That was hard for the press to understand."

Every year, many thousands of wooden railroad ties wear out and must be replaced. Disposing of the old ties has turned into a major headache for the railroads, because the ties are soaked in creosote, a wood preservative. Burn the ties, and you pollute the air; bury the ties, and you pollute the ground water.

Now the railroads have found a solution: Ship those old ties to that plant in Kansas City. The plant belongs to Cedrite Technologies, an 80-percent-owned subsidiary of Harmon Industries, a Blue Springs, Mo., company that manufactures products for the railroads. Gene Harmon, 50, is Harmon Industries' chairman, president, and chief executive officer.

Even after the fire, Cedrite had plenty of old ties left: about 120,000 of them, piled several stories high on five acres around the plant. Cedrite grinds the old ties into chips, mixes the chips with a proprietary resin, and pours the mixture into 1-ton molds. Under 4 million pounds of pressure, 3 feet of chips are squeezed down to a height of 7 inches. The mold bakes in a huge oven for six hours and cools for two, and at the end, out pops a new railroad tie.

The new ties are much harder than wooden ties, and, at 270 pounds, 30 or 40 pounds heavier; from all indications, they will last a lot longer than wooden ties. Says Gene Harmon: "It's not very often that you get a chance to solve a major environmental problem and make some money doing it."

But as Harmon readily admits, Harmon Industries is not yet making money off the new ties, even though it has invested $14 million in the Cedrite plant. Cedrite shipped its first ties to the Union Pacific railroad last July 31, but the lack of a critical piece of machinery has held production to one tie every two minutes; when the new ma-

chinery is in place, production should rise to one tie every 40 seconds. "The process is proven," Gene Harmon says. "The question is whether we can build ties at a pace fast enough to recoup the capital cost of the plant."

The payoff for success will be large: Not only are railroads providing the ties (and shipping them to Cedrite) for free, but they have already placed orders for the first two years' production.

Harmon Industries did not invent the Cedrite process, but in other respects, the Cedrite plant typifies the Harmon approach to business. Repeatedly, Harmon Industries has embraced novel technologies and absorbed short-term costs for the sake of long-term gains; the company typically spends 5 or 6 percent of its revenues on research and development. It has, as a result, survived and prospered in a complex, rapidly changing industry.

Dramatic changes have occurred in just the 10 years since Congress relaxed the federal government's regulatory hold. Trains run today with much smaller crews than in the past, relying instead on sophisticated electronics of the kind that form the backbone of Harmon Industries' business.

Harmon Electronics, Harmon Industries' predecessor, was born in a very different world. Gene Harmon's father, Robert C. "Bob" Harmon, founded the company in 1946, when he went into business in one corner of an upholstery shop in Independence, Mo.

Bob Harmon learned about radio while serving as a Marine in the 1930s, and during World War II he worked as an engineer for an electronics company. After the war, that company tried to move into civilian electronics, selling two-way radios to the railroads; when the company faltered, Harmon went into business for himself.

PHOTO: ©CHUCK KNEYSE—BLACK STAR

In Harmon Electronics' *main plant at Grain Valley, Mo., the Harmons inspect circuit boards of the kind that the company uses in sophisticated products that control both trains and crossing signals.*

It was slow going at first, says Bob Harmon, who just turned 77: "The railroads were very conservative in dealing with new companies." But, Gene Harmon says, his father found his niche by accepting "the tough projects that nobody in their right mind would take on."

Bob Harmon's forte, Gene says, was finding some way "to transmit data from point A to point B by stealing a ride over some other circuit." For example, railroads rely heavily on hotbox detectors—trackside devices that use beams of infrared light to locate defective axle bearings (overheated bearings are called hotboxes); they can freeze a wheel in place and eventually derail the train. Bob Harmon found ways to transmit such information over power lines or telephone lines, without interfering with other uses of the lines, so that some central point could be notified about the hotbox; the engineer could then be warned, by radio.

But after almost 20 years, Harmon Electronics had become no more than what Gene Harmon calls a "custom engineering firm," skilled at finding solutions to problems but unable to translate those solutions into products that brought large, continuing sales. It was a company with about two dozen employees and less than $1 million in annual revenues. That changed three years after Gene Harmon joined the company in 1961.

The Harmons lived on a farm adjoining the Harmon Electronics plant in Grain Valley, Mo., and "from about 11 to 13 years old, I toyed with the idea of being a farmer," Gene recalls. He made $435 from five acres of corn one summer, but the next summer, he put in 15 acres, there was a drought, and he made only $34. That settled him on railroads as a career, and he went to work for Harmon Electronics after graduating from Georgia Tech.

In 1964, Gene was visiting at the Santa Fe headquarters in Chicago when he learned that the railroad badly wanted an improved electronic track circuit—essentially, a switch on the track that triggers a crossing gate and warning lights when a train crosses it. In those days, a crossing gate might not open to auto traffic until a train had gone 100 feet or more past it; the Santa Fe wanted the gate to open as soon as the train had cleared it by 5 feet.

Gene presented the specifications to his father and a staff designer, and, he recalls, "they both agreed that it should be easy: What's the big deal?" When the Harmons demonstrated their switch, it raised the gate when the train had cleared it *by 2 feet.*

As word of the Harmons' innovation spread, the orders poured in. At last, Harmon Electronics had a product with a long life. But as sales jumped into the millions, Bob Harmon found himself increasingly uncomfortable. "I was primarily an engineer, not a manager," he says. "I didn't really have any major wish to operate a larger company."

In 1969, Bob Harmon retired from active management of the company. "He literally cleaned out his desk and left," Gene says, and went on an extended trip to Europe. Bob Harmon remained the majority stockholder, but only until 1972, when Gene took the company public.

Throughout the '70s and into the early '80s, Harmon Electronics built its sales on electronic controls for grade crossings, like those that first brought

it success in 1964. Even now, such products account for perhaps $20 million of Harmon Industries' annual sales, which hit almost $65 million in 1988. But, Gene Harmon says, he recognized years ago that there would be a ceiling on how much the company could grow with a limited product line—especially considering how fiercely competitive its industry was, and how effectively the railroads resisted price increases. Harmon Electronics was consistently profitable, but not at levels that encouraged complacency.

In 1984, Gene Harmon started acquiring companies that complemented Harmon Electronics. (Harmon Industries was set up as a holding company in 1986, with Harmon Electronics as one of its subsidiaries.)

One acquired company makes the hardware—crossing gates and flashing lights and so on—to go with Harmon Electronics' electronic controls; another makes electronic equipment that's used to control the flow of railroad traffic. In the span of a few years, Harmon Industries has become the railroad equivalent of a men's accessory shop, selling just about everything except the trousers and coats—that is, the trains and the tracks.

"It's not very often that you get a chance to solve a major environmental problem and make some money doing it. . . . The question is whether we can build ties at a pace fast enough to recoup the capital cost of the plant."

And even that may change. In 1987, Harmon set up a subsidiary that holds inventories of railroad equipment; it can quickly assemble such equipment into complete kits, so that, for example, a railroad that needs a signal installed can get everything at once from Harmon. The warehouse subsidiary is, Gene Harmon hopes, one way that Harmon Industries will get a leg up on the future, as the railroads lean more and more toward contracting out.

It is, however, at the current main plant of Harmon Electronics that the future seems to have already arrived. Take hotbox detectors: When a detector spots a hotbox, no longer is it necessary to transmit a warning to a central point. Now the detector speaks directly to the engineer, in radio messages provided by a voice synthesizer; a detector can tell an engineer not only that his train has a hotbox but also exactly where it is.

Just as remarkable, perhaps, is the "speed limiter." It was developed following a 1987 accident that killed 16 people at Chase, Md. A Conrail train of three locomotives went through a stop signal, intruded onto a high-speed track, and was struck by an Amtrak passenger train traveling over 100 mph. The Federal Railroad Administration mandated that railroads in the Northeast Corridor adopt equipment that would slow a freight train automatically if the engineer failed to heed warning signals. The task was complicated by the need to avoid stopping trains abruptly. Gene Harmon explains:

"On a passenger train, you can put the brakes on in an emergency, and about all you're going to do is throw the passengers around a little bit; you're not going to derail the train. With a freight train, you have a high probability of derailing the train by locking the brakes," because loaded cars may alternate with empty cars, and "the heavy car behind a light car tends to want to push it off the track." If a freight train should derail while it's passing a passenger train, so much the worse.

Harmon's speed limiter was chosen over a competitor's, and now, Gene Harmon says, it is being installed on locomotives all over the U.S. "Our equipment looks down the track and says, 'Okay, in 40 seconds from now you need to be at 30 miles an hour.' If the engineer doesn't start braking in a sufficient time, we start applying the normal brakes for him." The system automatically—and gradually—takes the train to a complete stop if the engineer fails to act.

It's easy to imagine such technology being extended to other kinds of traffic; think how much safer highways would be, for instance, if cars could respond automatically to hazards.

Gene Harmon isn't particularly interested in such applications now, but with the railroads, and transportation of all kinds, evolving rapidly, perhaps in a few years Harmon Industries will be contemplating invitations to compete in the design of altogether new safety systems.

"We love challenges," Gene Harmon says. "We jump on those things. When somebody says, 'Okay, you design this product and we're going to compare it to this guy's product,' that's all we need." NB

LEGISLATION

Congressional Wrap-Up

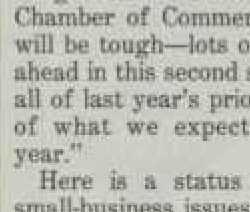
By Bradford A. McKee

Repeal of Section 89 was a major victory for small business in the first session of the 101st Congress, and an increase in the minimum wage was a major setback.

Otherwise, most of the issues of greatest concern to small business during 1989 are still awaiting action by Congress during its 1990 session.

"Very few of the important business issues were resolved in 1989," says Albert D. Bourland, vice president for congressional relations of the U.S. Chamber of Commerce. "So this year will be tough—lots of long, hard work ahead in this second session. We've got all of last year's priorities piled on top of what we expect to develop this year."

Here is a status report on major small-business issues in the 101st Congress:



Section 89. The unrelenting opposition of small business resulted in a retreat by Congress in one of the hardest-fought battles in years on government regulation. At issue was Section 89 of the 1986 Tax Reform Act, a section designed to prevent employers from favoring higher-paid employees in pension and other benefits plans. Small business protested, however, that the mechanisms set up for determining whether discrimination existed placed such an enormous regulatory burden on companies that many would give up benefits programs rather than incur the high costs of compliance.

Enforcement of the regulations was deferred several times during the long congressional debate on whether the provision should be repealed or simplified. That debate ended conclusively with repeal of Section 89, which was one of the last major actions of Congress in 1989.

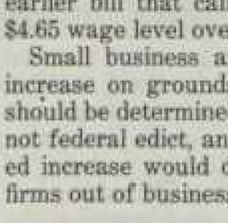
Nonetheless, some members of Congress are continuing to explore ways to deal with allegations of discrimination in benefits plans, and some new proposals on this subject, including taxation of benefits generally, may be forthcoming this year.

Minimum Wage. A compromise between President Bush and the Democratic leadership of Congress resulted in enactment of legislation that will raise the federal minimum wage 90 cents an hour in two steps. The level will go to $3.80 on April 1 and to $4.25 a year later.

The law also provides for payment of a training wage to new workers aged 16 to 19. The training wage is set at 85 percent of the regular minimum. Employers can pay at that level only for 90 days, but firms with certified training programs can pay it for an additional 90 days. In a further limitation, the training wage can apply to no more than 25 percent of the total number of hours worked by all employees.

The final passage of the increase followed a veto by President Bush—with strong support from business—of an earlier bill that called for attaining a $4.65 wage level over three years.

Small business argued against any increase on grounds that wage levels should be determined by market forces, not federal edict, and that any mandated increase would drive many smaller firms out of business.



Capital Gains. Enactment of a reduction in the tax rate on capital gains is expected in the new congressional session. A majority of members of Congress indicated in direct or test votes in 1989 that they support President Bush's proposal for the lower rate.

While Democratic leaders in the Senate managed to prevent final action last year with procedural roadblocks, the issue will come to a final vote early this year.

The president's proposal calls for reducing the tax on capital gains, now a maximum of 33 percent, to 15 percent.

Opponents have argued that a reduction would curtail federal revenues during a period when elimination of the federal budget deficit is a major priority.

Supporters point out that previous experience shows that a rate reduction encourages investment and economic activity, thereby increasing tax collections.

Disabilities Act. The Americans with Disabilities Act, which would set federal requirements for protecting the rights of the disabled, probably will become law early in 1990. The Senate passed the measure overwhelmingly in 1989. A key House committee has completed action on a similar bill.

Business is concerned chiefly about the measure's potential for increasing litigation and about its compliance costs. For example, the legislation would require businesses to make "reasonable accommodations" to serve disabled persons—such as expanding narrow doorways if that would be "readily achievable"—or face first-offense penalties of $50,000.

The Senate bill exempts firms with 15 or fewer employees; the House bill has no small-business exemption.

Business's supporters in Congress, who admit they cannot derail the bill, are working to moderate its impact through actions such as clarifying definitions to minimize litigation and providing a $5,000 tax credit to ease the financial burden of compliance.

Estate Freeze. An issue of critical concern to family businesses in the 1990 session of Congress will be a move to repeal the tax provision known as 2036(c). That is the section of the tax code that abolished the estate-freeze approach to tax planning. The pending legislation would restore use of the freeze, which could save a family from being forced to sell its business just to pay ruinous inheritance taxes.

The earlier tax provision made it possible to freeze the value of a business

ILLUSTRATIONS: DAVID STREET/STREETWORKS

A major victory, a defeat, and a host of issues left for consideration in 1990—that was how business fared in the just-completed session of Congress.

subject to inheritance taxes. In a typical situation, a founder or owner who wanted to leave a successful business to family members recapitalized the firm. Much of the current value, income, and voting power was allocated to preferred stock retained by the founder. Growth was allocated to nonvoting common stock held by the heirs. Estate taxes were levied against the preferred stock, which generally had not risen since the recapitalization.

Without a freeze, the entire value of the business at the time of the owner's death is taxed.

Parental Leave. The all-out opposition of small business was again successful in preventing action on parental-leave legislation, but the issue will come up again in the 1990 session.

"Parental leave" is actually shorthand for a proposal requiring employers to allow workers to take prolonged unpaid leave to care for sick children, to deal with matters arising from the birth or adoption of a child, or to meet responsibilities for the care of elderly parents or the employee's own illness.

Employers believe such arrangements should be worked out by a company and its employees on the basis of workers' preferences for benefits and management's ability to finance them. A federal law specifying conditions for granting leave would sharply curtail employers' flexibility in fashioning benefits packages, say opponents. They also are concerned that a law mandating conditions for granting unpaid leave would be an opening wedge to an eventual requirement for paid leave.

Child Care. Providing child-care assistance to low- and moderate-income working parents will be among Congress' top priorities for 1990. Widespread disagreement over the amount and form of this assistance precluded enactment in 1989. The Senate passed a child-care bill last June providing for combined block grants to states (about $1.75 billion in fiscal 1990), a dependent-care tax credit, and a credit for health-insurance premiums to employees with dependent children.

The Senate bill was a compromise among those who wanted to enact a federally controlled and administered child-care entitlement program and those who favored lending a financial helping hand to parents while letting them continue making their own decisions on child-care providers.

This year's debate will continue to focus on the federal role in child care, the cost of the program, and the requirements it will put on businesses employing working parents.

Business favors an approach that minimizes a federal spending and regulatory role while affording states flexibility to fashion their own programs.

Mandated Health Insurance. All indications are that Sen. Edward M. Kennedy, D-Mass., and Rep. Henry A. Waxman, D-Calif., will continue seeking enactment of legislation requiring all employers to provide specific health benefits to their workers. A bill mandating health benefits cleared the Senate Labor and Human Resources Committee last year and was awaiting full Senate action when Congress adjourned.

On the other hand, Sen. Orrin G. Hatch, R-Utah, says he will continue to press for his alternative to the Kennedy-Waxman proposals "in the interests of all employers." Hatch's bill, which addresses many causes of escalating health-care costs, would remove barriers to affordable health insurance by pre-empting state health-insurance mandates and providing grants to states for establishing insurance risk pools for high-risk individuals. Hatch's bill also would provide for medical-liability reform by establishing federal treatment guidelines that, if followed, would serve as a defense in malpractice suits.

Business Tax Credits. Just before adjourning in November, Congress extended, until Sept. 30, 1990, education and other tax credits used by many businesses. Among the activities eligible for credits are:

- Educational Assistance. Businesses that reimburse workers for educational costs (other than graduate-school tuition) may deduct these payments as business expenses. An employee receiving this assistance may exclude up to $5,250 a year of it from taxable income.
- Research and Development. Businesses are granted a 20-percent credit for qualified research and development expenditures.
- Health Insurance Payments. Self-employed persons may deduct up to 25 percent of health-insurance expenses for themselves and their dependents.

The future of these credits likely will be linked to this year's broad deficit-reduction effort.

Pension Reversion. A House-passed provision prohibiting employers from recovering excess assets from terminated defined-benefit pension plans was among those stripped at the last minute from Congress' 1989 deficit-reduction package. But supporters of the ban on so-called pension reversions are likely to pursue passage this year.

Employers usually make all contributions to such plans, which promise specific dollar amounts to participating employees upon retirement. Opponents of the reversion ban argue there is no reason that businesses should not be able to tap contributions and earnings remaining after plan obligations are met.

This year Congress also is likely to reconsider a proposal that would require employee participation on the boards of trustees of single-employer pension plans. The House rejected this proposal, 250-173, in 1989 in the face of furious business opposition. NB

MANAGING

Management By Fun

By Charles A. Jaffe

PHOTO: © JIM MENDENHALL

A Halloween party *at Odetics Inc., Anaheim, Calif., is one way that company-sponsored fun enhances employee enthusiasm.*

In the fall of 1987, Physio-Control Inc. was playing catch-up. The Redmond, Wash., company—an Eli Lilly Corp. subsidiary that makes heart monitors and defibrillators—had fallen behind schedule because it had overhauled its production methods. As a result, workers were in jeopardy of losing performance bonuses, and tensions were running high.

It was time "for a little levity to break the tension," says Les Tiffany, the company's director of production. "We tossed around a lot of ideas, all pretty outrageous, before settling on one."

With his boss's approval, Tiffany dressed up like a clown one day, mounted a child's tricycle, and pedaled through Physio-Control's 300,000-square-foot facility, towing a little red wagon that carried a siren and a banner announcing production of $500,000 worth of goods. For three months, every $500,000 in finished goods meant a tricycle ride through the plant by one of the company's more than 40 managers—always a volunteer—dressed as a clown, or a swashbuckler, an elf, or Santa Claus. The siren sent workers rushing to the "parade route" to see the "lucky" manager, halting production for up to 10 minutes in each work area as often as three times a day.

"It was maximum disruption," Tiffany says, "but that was the plan. Management here wasn't afraid to have a little fun. And in spite of the commotion and the stoppages, we did work to our limits; we easily exceeded our goals."

A number of management experts are convinced that all work and no play makes employees unhappy and unproductive. Though it's not a widespread management tool, putting a measure of fun and humor in the workplace, many say, can increase employee loyalty, productivity, and enthusiasm for the job, which in turn can help a company deal with increasing competition and demands for productivity.

"If there is a pleasant feeling while you work, you're less aware of the effort you are putting in," says Renn Zaphiropoulos, former president of a California-based printer manufacturer, Versatec Inc., and now a management consultant in Utah. "I call it manageable anxiety, the state in which fun works best. Design the situation so workers are captured by an intrigue. Give them a challenge—a big effort, but not impossible—and they'll be anxious to achieve their goal. Let them have fun and maybe show their personality, and they'll love the work and do it well."

Companies that employ a management-by-fun strategy are often in highly competitive industries where workers are almost constantly under pressure to perform. Fun relieves tension, managers say, while the demands of the job ensure that levity doesn't deteriorate into unproductive goofing off. Fun should be constructive, experts add, and it should never be demeaning or offensive.

The definition of fun, of course, depends largely on who's defining it. For example, the story is widely told that Bill Gates, the billionaire founder of Microsoft Corp., has said that one of the best ways to have fun is to write computer programs.

Enjoyable work is not the only ingredient in fun, however. Executives at companies that either allow or encourage employee fun say it requires creation of a certain atmosphere. Correctly done, these managers say, fun is distinct from goofing off. Maintaining that difference often requires that the fun—though usually spontaneous for workers—is planned and run by the company's top managers and is not al-

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Convinced that all work and no play makes the workplace dull and unproductive, many companies are fostering a measure of managed fun to boost employee loyalty, enthusiasm, and output.

A manager's trike ride *through the plant celebrates the attainment of a production goal at Physio-Control, in Redmond, Wash.*

lowed to get out of hand. In short, managing by fun is serious business.

The management-by-fun approach is relatively new. The traditional view—that work means work, and fun gets in the way—has long been ingrained in management philosophy.

George H. Labovitz, a Boston University professor of organizational behavior and management, customarily shows his students that in all 2,281 pages of the 1922 edition of *The Management Handbook*, only one page is devoted to the subject of morale. That page, he explains, "says employers should create athletic teams so that energy generated on the field can carry into the workplace."

Labovitz, who also heads a Burlington, Mass., quality-improvement consulting firm called ODI Inc., says: "That was the 1922 approach to fun; keep it out of the office, and hope the benefits of having fun—namely good morale—trickle in. A lot of old-school managers still believe—more than 65 years later—that fun doesn't belong in the office."

David Abramis, an organizational psychologist and professor of management at California State University, Long Beach, has studied office fun and says it often requires a complete change in corporate culture. Although management by fun is no substitute for a person enjoying his or her work, when fun is correctly instilled in the working environment, it creates "a higher quality of life," he says.

"You don't just decide to make work fun, any more than you'd change your bonus system," says Abramis. "You have to decide how fun fits in with everything from your benefits plan to your performance-appraisal system. It needs top-management support and can't be mandated or forced. But if it fits into your system, fun is a very positive addition to the workplace."

Outlandish escapades like the Physio-Control tricycle ride may attract raves from pop-culture management gurus, but workplace fun encompasses many more familiar activities, such as company picnics, Christmas parties, athletic teams, ice-cream socials, and the increasingly common casual-dress days. The fun things—with worker participation always voluntary—can be easy and individualized, such as letting employees decorate their work space. Or they can flow from the esprit de corps formed by a particular company image. The New Pig Corp. in Tipton, Pa., for example, uses a "Pigalog" as a marketing tool for the industrial cleaning products it makes, and workers take orders on company-issued pads marked colorfully with "Oink."

These types of actions, say managers and academic experts, make employees feel good, and this feeling—a component in worker satisfaction—improves morale and worker performance while reducing employee turnover.

Keith Brush, manager of associate relations for Odetics Inc., an Anaheim, Calif., manufacturer of advanced intelligent-machine systems, says that in the computer industry, "there were times when engineers jumped from company to company for another 50 cents an hour. The things we do here make people want to stay. You spend so much of your life working, that having a fun environment to work in is something worth hanging onto."

Starting in its lobby, where the footstools look like legs and feet, Odetics embodies management by fun. The company's fitness center isn't unusual; the repertory theater troupe is. Fridays are casual, but there are also "theme" days. The company cafeteria has been turned into a sock hop, complete with an old-fashioned phone booth for a stuffing competition. An informal group nicknamed "the fun committee" has organized events such as employee Olympics—goofy lunch-hour events coinciding with the Olympic Games—and surprise ice-cream bashes for the 500 employees.

At Southwest Airlines, fun is tempered only by federal regulations. Herb Kelleher, Southwest's chairman and chief executive officer, believes that on-the-job fun results in better customer service. So a Southwest flight atten-

dant may make the preflight safety announcement to passengers by singing it a la Elvis Presley or by laying it out in the neighborly manner of Mister Rogers, the children's TV-show host. On a Southwest flight last winter, cabin attendants dressed as elves and reindeer and danced in the aisles as the captain sang Christmas carols over the address system and gently swayed the aircraft to the rhythm of the music.

"It's not a forced thing at Southwest," explains Don Valentine, the Dallas-based airline's vice president of marketing. "There are certain standards and rules of job performance that must be met. Beyond that, almost anything goes. We don't tell people to do something funny or weird, but we don't discourage it either. We find that workers who are having fun treat customers well. It's a style that differentiates us from the other guys in our industry and makes us better."

When he headed Versatec, Renn Zaphiropoulos once gave his executives their bonus checks while he rode an elephant in a ceremony that included the Stanford University marching band. Every time a Versatec employee celebrated a five-year service anniversary—regardless of the worker's position with the company—Zaphiropoulos took the employee to lunch, riding in his Rolls-Royce.

Zaphiropoulos—whose distinctive management style attracted the attention of Tom Peters, author of *In Search of Excellence*—ran a firm that had casual days, parades, contests, and—as with most companies that create on-the-job fun—a wild Halloween celebration. When Versatec was sold to Xerox Inc., Zaphiropoulos agreed to stay on if his management style could be retained. But after several years and as industry competition increased, Xerox officials decided to replace Zaphiropoulos' system with what was called a "total quality approach." Zaphiropoulos left in early 1988.

Versatec's new president, Charlie Askanas, while declining to compare his system to that of Zaphiropoulos, acknowledges that some workers resisted the change and that turnover increased for a short time. "But there have been gains in quality and attitude, and we are more competitive now," Askanas says. "The market changed, and this company had to change with it. I wouldn't say we eliminated fun; it's just different."

Indeed, while fun has benefits, it must be balanced against the condition of the business. When Odetics recently had layoffs, certain activities were curtailed. "You can't go out and spend a lot of money for a party when the company has to lay people off," says associate-relations manager Keith Brush. "It's not that you stop having fun at those times, but you become more selective and less showy."

Patt Schwab, a human-resources manager at the University of Washington and head of the Seattle-based humor-consulting firm Speakeasy Inc., says sarcasm and practical jokes are out. So are cute quips and posters with sayings that downgrade office life: "Those sorts of things are designed to be funny, but they are a constant reminder of what has gone wrong, can go wrong, or will go wrong." Managers who feel they lack humor can still encourage an atmosphere in which fun flourishes, Schwab says. "In having fun and using humor, the idea is to take the energy used on the negative and turn it into something that benefits the entire workplace."

Zaphiropoulos adds: "The integration of fun into your management style must suit your personality and the culture of the place. Not everyone can ride the elephant. And fun in the Silicon Valley isn't necessarily right for Cleveland; putting fun into a lawyer's office is different from doing it at a manufacturing company. But in every case, fun has its place."

PHOTO: © JANICE RUBIN—BLACK STAR

Laughs aloft at Southwest Airlines, *where fun on the job is tempered only by federal regulations, and the result is better customer service.*

At the University of Montana, one department head created a joke board in his office, offering a dollar each week for the best joke. And because humor often is a veil for problems, the supervisor learns quickly of issues important to the staff. He calls the money the best $52 he spends each year.

At a Fort Washington, Pa., data-management firm, the vice president of marketing keeps a blackboard in his office for "the local graffiti," noting that "you can tell a lot about what's going on here by what is on the blackboard. They aren't working when they draw on the board, but it helps the mood, and that's good for sales."

John Imlay, who heads Management Science America, an Atlanta-based software-manufacturing firm, uses humor and drama to make points and motivate employees. At the company's annual black-tie meeting at an area theater, Imlay brings out wild animals. They have included tigers—"they are fighters and survivors and are very inspirational," says Imlay—an orangutan, and an eagle.

Imlay's company recently agreed to a merger with Dun & Bradstreet Corp. and is to be combined with another D&B operating unit. The new unit is to be called Dun & Bradstreet Software Services, and Imlay will be chairman. At Management Science America, he says, "Fun is part of our culture. Everyone gets their work done; the fun is a celebration of our success."

Says David Abramis, the Cal State professor, who has surveyed or interviewed more than 1,000 people on fun at work:

"Clearly, there are times when it is totally inappropriate to be having fun. But to the extent that the people who participate are enthusiastic about their work and view their work environment as a fun place to be, fun improves their ability to meet the demands of the job. In the bottom-line analysis, that's good for business." NB

To order reprints of this article, see Page 70.

LAW

RICO: A Runaway Anticrime Law

The 1970 RICO law is sometimes used as a legal weapon against those it should protect, say advocates for reforming it.

By Peter H. Gunst and Robert B. Levin

Although it is a cliche to say that America has become a litigious society, the number of lawsuits has accelerated since the early 1980s. Lawsuits with huge damage awards have become a tempting get-rich-quick scheme threatening businesses of all sizes.

Two of the main culprits responsible for this trend are the federal Racketeer Influenced and Corrupt Organizations Act (commonly known as RICO) and massive non-economic-damage awards.

As its name implies, RICO was designed as a weapon to protect legitimate businesses from organized crime. But civil claims have been filed under it in cases of bank foreclosures on real estate, between doctors and hospitals over staff privileges, between an automobile dealer and his supplier concerning allegedly misleading advertising, between a towing service and a county sheriff concerning towing rights, between competing rabbinical factions in Brooklyn, even between warring spouses over monetary claims in divorce cases and child-custody battles.

(The legend of its acronym emphasizes the original intent of the 1970 RICO law. Although G. Robert Blakey, a University of Notre Dame law professor who helped draft the statute, will neither confirm nor deny it, supposedly he was inspired by Edward G. Robinson's character Rico Bendello in "Little Caesar," a 1930 gangster movie.)

The RICO law, passed in 1970, contains strong language and stiff penalties on the grounds that extreme measures are necessary to get at mob influence.

The law also was written quite broadly. Its references to a pattern of "racketeering activity" by any "enterprise" could be interpreted to include not only murder, extortion, and kidnapping but also more common acts of fraud, such as mail and telephone fraud. And it only takes two events to establish a pattern.

Under RICO's civil provisions, plaintiffs injured by "racketeering activity" may recover triple the actual damages as well as costs and attorneys' fees.

At first, RICO was almost ignored. But around 1980, plaintiffs' lawyers realized that RICO could be applied to individuals other than typical racketeers. As New York federal Judge Gerard Goettel observed, "Any garden-variety fraud case or even a commercial case with just a slight fraud overtone might qualify" as racketeering, since in commercial activities, "the mail and telephones are extensively used."

The number of civil RICO cases increased eightfold from the early 1970s, to nearly 1,000 cases in 1986 and the same number in each of the two years thereafter. Few cases were brought against gangsters. Instead, attracted by the lure of triple damages and attorneys' fees, ingenious lawyers reached for the brass ring and filed RICO suits against established businesses such as banks, insurance companies, and accounting firms.

Such suits can have the impact of a nuclear bomb on a business where the activities complained of might amount to little more than breach of contract yet often result in huge punitive damages.

This phenomenon directly affects consumers. The costs incurred in paying these judgments, as well as the increased legal costs for defending against large punitive-damages claims and the costs of higher insurance premiums, are passed right along to consumers through higher prices.

Moreover, as Justice Sandra Day O'Connor noted in her separate opinion in the Supreme Court's decision in the punitive-damages case of Browning-Ferris Industries vs. Kelco Disposal, the threat of enormous, unpredictable damage awards has "a detrimental effect on the research and development of new products." Thus, manufacturers of prescription drugs "have decided that it is better to avoid uncertain liability than to introduce a new pill or vaccine into the market."

In remarks last April at a Brookings Institution seminar in Washington, D.C., Chief Justice William H. Rehnquist said that "civil RICO is now being used in ways that Congress never intended." When the Supreme Court has

PHOTO: © PHOTOFEST

PHOTO: © KEN HEINEN

Did Edward G. Robinson's *"Rico Bendello" in a gangster film inspire the RICO racketeering law's name? It's no issue for U.S. Chief Justice William H. Rehnquist, below.*

Peter H. Gunst and Robert B. Levin are partners in the law firm of Frank, Bernstein, Conaway and Goldman, with offices in Maryland and Virginia.

reviewed civil RICO suits, however, it has upheld them. Last June 26, the Supreme Court decided two cases in which large corporations tried to neutralize these powerful legal devices. The first case, H.J. Inc. vs. Northwestern Bell Telephone Co., involved an attempt to dismantle RICO. The second case, Browning-Ferris Industries vs. Kelco Disposal, attacked the practice of awarding huge punitive damages.

Few cases were brought against gangsters. Instead, attracted by the lure of triple damages and attorneys' fees, ingenious lawyers reached for the brass ring and filed RICO suits against established businesses.

The Rehnquist court confounded its admirers by rejecting both challenges. Instead, the court took a narrow view of its role. The justices declared themselves powerless to rewrite the law so as to reduce the risk and uncertainty that defendants face as a result of racketeering and punitive-damages claims.

The court said Congress has not limited RICO to organized crime, and the justices were not about to rewrite the law. "RICO may be a poorly drafted statute," said the court, "but rewriting it is a job for the Congress, if it is so inclined, and not for this court."

In both decisions, the Supreme Court threw out tantalizing hints that perhaps it would have acted differently if the defendants had only come up with a different challenge. In a dissenting opinion, four of the justices hinted that the RICO statute may be unconstitutionally vague, which would open the ruling up to the possibility of being overturned or limited in future cases.

Opponents of punitive damages pressed the new theory quickly in the Supreme Court. In an Alabama case arising out of a fatal highway collision, a motorist had been ordered to pay a seven-figure punitive-damages judgment. The motorist's lawyers asked the high court to declare unconstitutional under the due-process clause the practice of permitting juries to award unlimited punitive damages in the absence of legislatively imposed guidelines.

The Supreme Court, however, once again surprised its supporters; last November it allowed the judgment to stand. Proponents of RICO reform are therefore turning to Congress. Under pressure from the U.S. Chamber of Commerce, organized labor, the American Bar Association, and the American Civil Liberties Union, Congress has started to move. But the outlook is problematic; incumbent members of Congress may not want to be portrayed by their opponents at election time as having voted to weaken an anti-racketeering law.

The Senate bill to revise RICO was introduced by Democrat Dennis DeConcini of Arizona; the House version is by Democrat Rick Boucher of Virginia.

The focus of both bills has been the triple-damages provision; both versions would eliminate this provision and, as originally drafted, would have made the repeal retroactive.

"The heart of our approach," says Boucher, "allows most plaintiffs bringing civil RICO suits to collect for their actual damages that they can prove but would eliminate their right to recover the windfall of automatic triple damages and attorneys' fees."

No one quarrels with the use of RICO in criminal prosecutions of organized crime, says Roger Middleton, a U.S. Chamber lawyer and specialist in white-collar-crime issues. But the law should not be used to win large damage awards and out-of-court settlements from legitimate businesses, which from then on, he says, would have to "endure the damaging publicity associated with a racketeering charge."

Recent drafts of the bills retreat from a straightforward repeal of the triple-damages provision. Instead, they would strengthen the power of federal judges to dismiss RICO complaints at an early stage. They also would give judges more discretion in deciding whether there is a "pattern of racketeering activity" in a given case, a pattern that would trigger criminal or civil penalties.

While legislation to reform RICO will be pending in Congress in its 1990 session, the outcome is unclear. Proponents of reform are more convinced now than ever before that change is necessary, however.

"If we fail to reform the civil RICO statute," says Rep. Boucher, "we will be turning a blind eye to what is truly at stake—the reputations of legitimate businesses and professionals." NB

Family Business

The questionable game of pitting inheritance against merit, deciding whether to sell the family firm, and a case study of a troubled family company.

HEIRS

Earning One's Good Fortune

By Sharon Nelton

The matter of inheritance—of wealth, power, or leadership—becomes a fuzzy issue when it's set in the context of a family business. I bristle when people make a point of noting that newspaper publisher Katharine Graham succeeded her husband, as if to suggest she has no merit of her own.

For example, the authors of *Corporate Bloodlines*, a new book on family business, write: "It is still rare to find women at the very top of America's biggest corporations and family businesses. Katharine Graham, publisher of *The Washington Post*, may be the most visible example. But she inherited her post upon her husband's death."

PHOTO: TING CHAO

And when he spoke at a meeting in Washington last fall, Allen H. Neuharth, former chairman of the Gannett newspaper and broadcasting company, claimed credit for naming the first five women publishers in the U.S., "except for a Katharine Graham or somebody who inherited from their daddy."

Silently I snap back: Folks wouldn't denigrate J. Willard Marriott Jr. by saying "but he inherited his post."

But now, I find, they would. In reprinting the *Forbes* magazine listing of the country's 400 richest people recently, *USA Today* said that Marriott's fortune and those of his mother, Alice Sheets Marriott, and of his brother, Richard, are inherited. I could not find such a designation in the actual magazine listing, although *Forbes* said that 40 percent of the fortunes were inheritances and gleefully referred to those with a "genetic passport" to wealth.

I don't know how these distinctions are made—neither Leonard nor Ronald Lauder appeared in *USA Today* as having inherited the $500 million listed next to the names of each, but surely their wealth comes from Estée Lauder Inc.

The game of pitting inheritance against merit is questionable at best. Allie Marriott was her husband's partner in starting the family business with its first Hot Shoppe back in 1927, and she is still vice president and a director. Didn't she earn the family fortune, just as J. Willard Marriott Sr. did?

After rigorous preparation, young Bill was elected president at a meeting of stockholders in 1964, when Marriott Corp. was approaching annual sales of $90 million. Now annual revenues are $7.3 billion. Didn't Bill Jr., now chairman, earn his fortune and his right to lead? Surely the Marriott family, not just one man, built the Marriott wealth.

Katharine Graham certainly merited the right to lead, building a media empire that now takes in $1.4 billion a year. So why demean her by saying "but she inherited her post"? (For that matter, her husband "inherited" the position before her, from her father.)

We seem to value founders more than successors and men more than women in our family businesses. What we need to remember is that, whether they are men or women, successors are just as important as founders if a business is to endure. Sometimes they are greater builders than their predecessors. Those who are most committed view themselves as stewards, not merely of family wealth but of jobs, with responsibilities not just to the family but also to the world in which they live.

So let's think twice before we say someone "inherited" a position or a fortune. He—or she—may really have earned it.

Sharon Nelton, Nation's Business *special correspondent, writes about family firms.*

PLANNING

To Sell—Or Not To Sell

By John L. Ward and Craig E. Aronoff

"These guys served in World War II, then got some college on the GI bill, and founded a business. Now they are retiring. My business has never been better!"

This statement didn't come from a family-business consultant. It was made by a specialist in mergers and acquisitions of companies worth $2 million to $10 million.

The demographic phenomena that contributed to the family-business boom after World War II have now resulted in a business-brokering boom. Successful business founders with heirs capable of assuming leadership often struggle to decide which way to go—to sell or not to sell?

Our experience suggests that what most often motivates sellers of family businesses is fear. For many business owners, the future looks ever more risky.

One owner we know fears the possibility of a product-liability suit that could bankrupt the business. Another is concerned that unforeseen federal legislation might abruptly lower the value of the business. A third wonders whether his company's plastic product will become environmentally obsolete.

Nearly all owners of small and medium-sized businesses worry about whether they can withstand increasing competition from U.S. as well as foreign companies that are consolidating or destroying once-comfortable market niches. Even for those families committed to their businesses, strategies for moving forward increasingly require larger financial risks.

Moreover, the risks aren't all business-related. Many owners seriously question whether continuing the family business is "good for the family."

Some reflective and sensitive parents question whether they can trust themselves in the face of retirement to turn over the reins gracefully. (These are

Continued on Page 64

Mark Your Calendar

Jan 18-20, Tucson, Ariz.

"Your Family-Owned Business: How To Build It, Manage It, Make It Last," a seminar sponsored by *Nation's Business*, Laventhol & Horwath, and Shearson Lehman Hutton. Featured speaker is Peter Davis, director of family-business studies at the Wharton School of the University of Pennsylvania. To be repeated Feb. 8-10 at Duck Key, Fla. For information, call Mary L. Howard at 1-800-521-1818.

Jan. 21-24, Philadelphia

"Chief Executive and Senior Officers of Family-Held Businesses," a seminar designed to help owners and managers deal with the complex demands of family firms. Write or call the Division of Family Business Studies, Sol C. Snider Entrepreneurial Center, The Wharton School, University of Pennsylvania, 426 Vance Hall, 3733 Spruce St., Philadelphia, Pa. 19104; (215) 898-4470.

Jan 25-27, Park City, Utah

"Assessing, Understanding and Developing Your Family-Owned Business," a workshop aimed at helping decision makers create action plans for continued family and business success. Write or call Dyer, Peay & Associates, 2696 N. University Ave., Suite 290, Provo, Utah 84604; (801) 375-0751.

Feb. 19-23, Philadelphia

"The Next Generation of Family Members in Family-Held Businesses," a seminar for young adult family members and their spouses. Contact the family-business division of the Snider Entrepreneurial Center, The Wharton School, University of Pennsylvania, 426 Vance Hall, 3733 Spruce St., Philadelphia, Pa. 19104; (215) 898-4470.

PLANNING

Continued from Page 63

the folks whom we worry about least.)

More often, parents fear that leaving the business to two or more children will create divisiveness, dissension, and even family dissolution. The fear is real and sobering.

Some founders, despite their accomplishments, still see business ownership as a burden. Long hours, hard work, and, most of all, heavy responsibilities to employees, community, and family lead them to wonder whether it is "fair" to so yoke their children.

Said one parent: "What if my kids carry on the business not for themselves but for me—out of duty or to avoid hurting my feelings?"

These questions and concerns are honest and appropriate. But the issue is two-sided. The flip side brings images of challenge and inspiration.

We have discussed motivations with thousands of family-business members in hundreds of businesses, and we find three pervasive themes arising from the reasons that young people express for wanting to continue the family business:

ILLUSTRATION: GREG FITZHUGH

- To enjoy an opportunity for independence, creativity, and self-fulfillment that cannot be achieved in any other way;
- To share common interests among family members and to use family strengths for the betterment of all;
- To continue what they perceive as a rich and meaningful tradition.

From the perspective of the succeeding generation, these are things that cannot be bought—so they certainly should not be sold.

The older generation, after a lifetime of dealing with a business's challenges, may forget that what now exhausts them can be invigorating to their children.

When motivations like those listed above are communicated among the generations, families usually find more than sufficient strength and resolve to deal with normal doubts and fears and to resist the temptations of taking the easy way out by selling the business.

While each family business is unique, we find a certain entrepreneurial spirit in almost every committed business family.

That spirit embodies the beliefs that creating is more important than consuming, that responsibility goes before reward, and that people should be self-reliant and independent. The president and co-founder of an office-products company sums it up in the following way:

"The family business is a core of abundant opportunity for the family—not a living memorial to the founder. If you have a good, successful business, opportunities keep coming your way. Being in business creates so many options that resources are not the limiting factor; the family's vision is the only constraint."

Whether or not to continue the family business, we believe, is the most important question a family in business must address. We urge you to discuss it at a family meeting. Probe your own motivations, questions, fears, opportunities, and goals. Then write down what you come up with. You might want to form your answers into a family "purpose statement." Understanding and committing to a family purpose is a great first step in successful continuity planning. Some families share their resolve and purpose statement with their employees and clients through meetings or newsletters. There's great power in telling others that you are committed and turned on.

The entrepreneurial spirit is perhaps the family business's most precious asset. Positive vision and a firm sense of purpose offer more insurance against the risks experienced by a family business than would a friendly banker with deep pockets or an elegantly drafted buy-sell agreement. When those important qualities are possessed by a new generation, there is little to be gained by cashing in the family business.

PHOTO: T. MICHAEL KEZA

John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago. Craig E. Aronoff holds the Chair of Private Enterprise at Kennesaw State College, in Marietta, Ga. Both are family-business consultants.

CASE STUDY

Young Successor On The Hot Seat

This is the first of a series of case studies of family-business dilemmas, commented on by members of the Family Firm Institute and edited by Cleveland business consultant Ernesto J. Poza. The cases are real, but identities have been changed to protect the privacy of the individuals involved. The authors' opinions do not necessarily reflect the views of the institute. Copyright © 1990 by the Family Firm Institute, Johnstown, N.Y.

ILLUSTRATION: GREG FITZHUGH

"I'm just stunned," admits 27-year-old business owner Rick Childs. His executive vice president, Keith Levin, 60, has told Rick that unless he receives an employment contract—a real fat one, Rick fears—Keith is going to leave Chilsco, a New York textile-manufacturing firm, for a similar position with one of the company's toughest competitors.

The threat is a real blow to Rick, still grieving over the death six months ago of his father, Robert Childs, who had been Chilsco's chief executive and sole owner. Keith had been Robert's right-hand man for more than 20 years.

Robert made no succession plan but left all the company's stock to Rick. Rick joined Chilsco right out of college, serving apprenticeships in the office and in manufacturing and then becoming sales manager of one of the firm's most dynamic product lines. "I'm not ready to run the company without the help of an old hand like Keith," he says.

While Rick has never felt very close to Keith, he respects the older man's judgment. But without a clear succession plan, neither man knows exactly where he stands.

Rick is not only angry. He's scared. Chilsco has not been doing well lately. The figures started to slide when the strengthening dollar shut off his industry's exports. The firm's bankers are getting nervous, and losing Keith might be the last straw.

What are Rick's options?

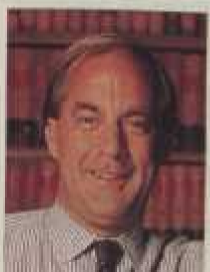

PHOTO: © BRUCE ZAKE

Rick Should Diffuse His Dependence

Philip M. Dawson, partner in the Cleveland law firm of Calfee, Halter & Griswold, specializing in corporate law with emphasis on closely held businesses:

Rick doesn't have many options. Business survival is his only concern now, and to achieve it, he needs Keith. His predicament reinforces the importance of succession planning *prior* to the death of the founder.

Rick should agree to Keith's request for an employment contract, but the contract should make Keith subject to enforceable noncompetition, nondisclosure, and noninterference obligations. In addition, the financial rewards of the contract, other than salary, should place "golden handcuffs" on Keith, making it expensive for him to leave the company prior to retirement.

For example, Chilsco could sell stock to Keith, possibly at a bargain price. Or Keith could be granted options to purchase stock at a reduced price. These options would be forfeited if Keith leaves the company before retirement. Any stock Keith owns should be subject to redemption by Chilsco upon his termination of employment. The redemption price should be no greater than his purchase price if his employment terminates other than at retirement (death or disability may get special treatment). If Keith stays until retirement, however, he could be paid a premium.

Alternatively, the company could issue stock-appreciation rights to Keith—that is, incentive pay tied to the increase in the value of the stock, so that Keith will benefit from the company's success without actually being an owner.

Rick should also institute an outside board of advisers, consisting of business executives with strengths in areas where Rick is lacking. They can offer invaluable counsel and diffuse the dependence that Rick has concentrated on Keith. For example, a board consisting of people with experience in sales, manufacturing, and administration not only could offer new ideas to Rick but also could examine critically his current policies and help establish a training program for management.

PHOTO: © SAL DIMARCO—BLACK STAR

Fix The Boat And Set A Safe Course

Nancy Drozdow, a principal with the Wharton Center for Applied Research, in Philadelphia, and director of its family-business practice:

Rick is in a tough spot. Keith's contract demand must feel like a low blow, coming so soon after Rick's father's death and on top of a business slump. Of course he is afraid and angry.

But Rick needs Keith to help accomplish two things: first, tune up the business, cut costs, and get operations in line quickly, and, second, once the business is on track, support a strategic assessment of Chilsco to determine its longer-term viability.

The first plugs the holes in the boat, and the second makes sure the boat is not headed toward the rocks. In a mature industry like textiles, with big players and intense competition, both are essential for longevity.

Rick needs Keith's experience, but he doesn't need it exclusively. As Phil Dawson suggests, he should immediately develop a knowledgeable and supportive board.

Then he should take a deep breath, acknowledge Keith's business contribution, agree to a contract, and carefully negotiate terms. The contract should focus on the five-year period to Keith's likely retirement and include a payment structure that induces performance throughout the contract term.

Compensation must be linked to both short-term shoring up of profitability and the development of a longer-term strategic thinking process. This requires that Keith and Rick, together, examine the company's strengths and weaknesses, its competition, and its markets. As a result, Rick should develop the maturity and skills to lead the business upon Keith's retirement, and the business should be on a solid strategic footing.

With clear and reachable objectives, Keith should feel both financially and emotionally secure about his tenure.

What's more, negotiating the employment contract successfully will provide a good foundation for Rick's leadership. NB

To order reprints of this article, see Page 70.

To Your Health

Managing well includes managing your own health—advice to help you do that better.

By Norman Brown

Advances in Treating Adult Acne

You may already know one fact about acne: It doesn't always go away when you get older. Those unsightly, confidence-sapping breakouts can last—or even start—well past the age of consent. But there have been medical advances in treating even the most severe and persistent forms.

Accutane (isotretinoin) has proved 90 percent effective in clearing up cystic acne—the most disfiguring form, which affects about 400,000 U.S. adults and may not respond to any other treatments, including antibiotics and retinoic acid (Retin-A).

"In many cases, there's no alternative [to Accutane]," says Dr. Robert Stern, a dermatologist at Harvard Medical School. "For some, it really substantially improves their appearance, self-image, and quality of life."

But the drug, a synthetic derivative of vitamin A that is taken orally, can cause severe birth defects if women take it while pregnant. For that reason, the American Academy of Dermatology recommends that doctors have female patients sign consent forms explaining the dangers and that patients take pregnancy tests before and during therapy.

There's less concern about using Retin-A, in the news because it combats wrinkles as well as acne. Because Retin-A is applied to the skin, the body absorbs "an almost undetectable amount," says Stern.

The medical news about acne *scars* is less controversial but equally dramatic. Collagen injections, an office procedure, can plump up soft, shallow scars, with "touch-ups" recommended at intervals of six months to two years. Treatment costs from $200 to $500, and patients must be tested to determine if they are allergic to collagen.

Dermatologists are using lasers to remove raised acne scars (as well as birthmarks and injury scars). The treatments work even on scars that have been around for a while, says Dr. Philip Bailin, dermatology chairman at the Cleveland Clinic, and healing appears to be permanent. Often, multiple lesions can be treated in one office visit, under a local anesthetic.

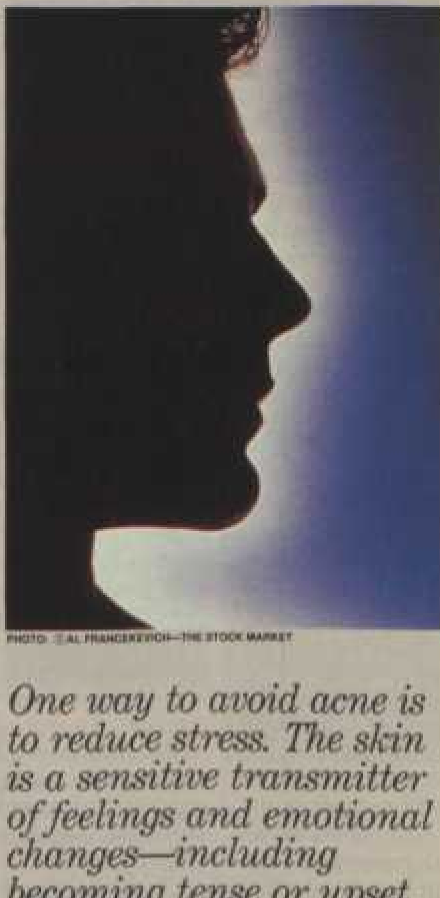

PHOTO: © AL FRANCEKEVICH—THE STOCK MARKET

One way to avoid acne is to reduce stress. The skin is a sensitive transmitter of feelings and emotional changes—including becoming tense or upset.

Doctors are watching to see if this technique is an improvement over dermabrasion (surgical skin-planing). It may also replace chemical peeling, which is difficult to control, and punch grafts, done with a "cookie-cutter" instrument that replaces the scar with new skin.

Accutane, collagen, and lasers are usually reserved for the most serious cases of acne. For the most part, treatment of pimples and comedones (whiteheads and blackheads) is the same for adults as for teenagers: medications to keep them under control and proper hygiene to prevent them.

Retin-A, for example, peels both the skin's surface and the pore linings, banishing the buildup of oil and dead skin cells that clogs pores and causes breakouts. But it's a potent drug and should be used with caution.

Benzoyl peroxide creams, sold without prescription, attack acne much as Retin-A does, with few side effects other than drying, and in addition they knock out bacteria within the clogged pores. For persistent cases, doctors often prescribe antibiotic lotions (tetracycline or erythromycin). Oral antibiotics are prescribed for very inflamed acne.

The location of breakouts can be a clue to their cause. Bumps on forehead, nose, and chin point to hormones (male and female), while cheekbones dotted with tiny pimples can mean that makeup or grooming products are at fault. You should switch to oil-free or medicated soaps, shampoos, and cosmetics to avoid triggering acne; and avoid products containing alcohol and lanolin, which may cause rashes and plug pores.

Red spots and streaks on the face (rosacea) occur when tiny blood vessels under the skin become enlarged. Sometimes cysts appear and the nose reddens. The cause of this type of acne is unknown, but alcohol and spicy foods are suspected. Treatment is almost always with antibiotics, although a topical gel was recently approved by the Food and Drug Administration.

One way to avoid acne is to reduce stress.

"Under stress, many people literally give themselves acne," says Dr. Peter Pochi, professor of dermatology at Boston University School of Medicine. The skin is a sensitive transmitter of feelings, and emotional changes—including becoming tense or upset—will produce changes in the body's hormones, and thus in the skin, no matter what ointment or cream you use.

To ease the strain on your skin, you can reduce stress through exercise and relaxation techniques; if you need help, videotapes and cassettes are available.

Pamper your skin, too, by showering after working out, and drying thoroughly. Follow a sensible diet and avoid those foods thought to cause acne, including lobster (for the iodides) and such hormone-rich meats as liver and kidneys. Outdoors, use sun blockers that contain no oils or lubricants. NB

Norman Brown is a Providence, R.I., free-lance writer who specializes in medical subjects.

It's Your Money

A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.

By Paul N. Strassels

TAXES

The IRS Digs Into Pockets Of Noncompliance

When you begin work on your 1989 taxes, be aware that the Internal Revenue Service targets certain issues where it has found reason to challenge taxpayers' returns.

Some of the matters have always piqued its interest—travel and entertainment expenses, for instance, as well as deductions for unreimbursed employee business costs. When you claim such deductions, make certain that you have receipts to back them up.

Other issues have come to light primarily because of recent changes in the law. These new areas, which have been identified as pockets of noncompliance during IRS audits over the past couple of years, warrant special consideration by taxpayers and return preparers.

Schedule C, which is used by a sole proprietor to report profit or loss from an unincorporated business, seems to stand out. The IRS has identified the following schemes:

- Overly creative real-estate investors are improperly claiming net rental losses on Schedule C, treating them as business expenses instead of investment losses in an effort to sidestep the rules on passive losses.
- Employees are mistakenly deducting their unreimbursed work-related expenses on Schedule C, trying to bypass the 2 percent threshold on miscellaneous itemized deductions.
- Some people involved in "activities not engaged in for profit"—better known as hobbies—are using Schedule C to claim losses that are not legitimately deductible.
- Individual borrowers can deduct only 20 percent of the personal interest they paid in 1989, while those who borrowed for business get a full deduction. The IRS has found some individuals using Schedule C in an effort to gain a full deduction.

PHOTO: ©MICHAEL KELLER—THE STOCK MARKET

Entertainment expenses *deducted on tax returns have always piqued the IRS's interest. Keep receipts to back up your claims.*

These additional areas of noncompliance have come to light:

- Some taxpayers are listing 1099 nonemployee compensation on their tax returns as "other income" in an effort to avoid Social Security taxes.
- Business taxpayers have been caught trying to expense up to $10,000 of the cost of so-called luxury cars (those costing approximately $12,000 or more), ignoring the rules that limit depreciation on more expensive automobiles. Depreciation is limited to $2,560 the first year you own a luxury car, $4,100 the second, $2,450 the third, and $1,475 each succeeding year, until it is either fully depreciated or sold.

You can bet the IRS computers will be checking this year's tax returns for these and similar items.

Paul N. Strassels, president of Money Matters Inc., Rapid City, S.D., is a tax-law specialist and financial adviser.

Beating The Tax System

When Congress enacted the 1986 Tax Reform Act, it had two primary goals. First, to shift the tax burden away from individuals and toward corporations. Second, to close down abusive tax shelters and similar loopholes through which savvy individual taxpayers could escape tax altogether. By those standards, tax reform is working.

Of the nation's large, profitable corporations, only a handful were able to reduce their federal income-tax burden to zero last year. What's more, the effective tax rate was almost double that of the first five years of the decade.

As for individuals: In 1986, the last year before tax reform was put on the books—and the most recent year for which IRS figures are available—only 600 out of 530,000 individuals with incomes of more than $200,000 were able to use the tax code in such a way that they paid zero income tax—but an additional 34,000 paid an effective tax rate of less than 15 percent.

How did they do it? Many wiped out their taxable income with their itemized deductions, particularly interest expenses. Others used tax-shelter losses. Still others relied heavily on business and investment deductions.

The days of beating the IRS out of every tax dollar are over for most people. Tax reform has wiped out tax-shelter losses, and interest expenses no longer work to wipe out tax liability. The 1987 figures presumably will be very different from those for 1986.

PENSIONS

Social Security Update

With the new year come changes in Social Security, changes that affect every worker, every employer, every person who collects a Social Security benefit, and every retiree who still holds a job.

Many of the changes are direct results of the 4.7-percent increase in the consumer price index during the fiscal year that ended Sept. 30.

PHOTO: © MUG SHOTS—THE STOCK MARKET

Working retirees can earn more *in 1990 without losing Social Security benefits, under the latest changes in Social Security laws.*

Under legislation that was passed by Congress just before adjournment in November, the employee wage base for 1990 rises to $51,300, up from $48,000 in 1989. That's the maximum amount of employee wages subject to Social Security tax. In addition, the Social Security tax rate for 1990 is 7.65 percent, up from 7.51 percent in 1989. Here's the rundown on other details concerning Social Security for 1990:

- Employers' wage base and tax rate are the same as those for their employees. In other words, employers still must match their employees' contributions to Social Security.
- The effective self-employment tax rate for 1990 is 15.3 percent, up from 13.02 percent in 1989. That is a pretty hefty increase. What happened is that in 1989, the tax rate was 15.02 percent with a 2-percent credit, for an effective rate of 13.02 percent. In 1990, there is no corresponding credit. Instead, self-employed taxpayers will be allowed to claim either:

1. A deduction on their income-tax return equal to one-half of the amount of the self-employment taxes paid for the year; or
2. A deduction from net self-employment earnings of net profit multiplied by one-half of the self-employment tax rate for the year (7.65 percent in 1990). The self-employment tax will be based on this reduced amount.

- Social Security beneficiaries will get bigger checks starting in January, based on the 4.7-percent cost-of-living adjustment. The average monthly benefit for 1990 is $566, up $25 from 1989.
- Working retirees can earn more without experiencing a reduction in benefits. Those younger than 65 can earn $6,840 before benefits are cut. Those 65 through 69 can earn $9,360. And those age 70 and above can earn unlimited amounts.

Regardless of age, a wage earner who is also collecting Social Security retirement benefits must pay the Social Security tax on those earnings.

CHILD CARE

Child Care: A Reminder

With an ever-growing segment of the population using child-care providers, it's important to remember that those who claim the child-care credit are now required to note on their tax returns the name, address, and taxpayer identification number of the person providing care. The only exception is when the child care is provided by a tax-exempt charity.

Absent this information, your tax credit will be turned down. The IRS recommends that you use Form W-10, Dependent Care Provider's Identification and Certification, to get the needed information.

BORROWING

Tapping Your 401(k) Plan

Most major employers, as well as a growing number of small and midsized firms, offer their employees 401(k) deferred-compensation plans or similar programs. If you have the opportunity to save toward retirement through a 401(k) plan, take full advantage because it's one of the best deals in town.

Among the features of the 401(k) program is the ability of the employee to get to his money in a pinch. The U.S. Labor Department has ruled that companies must let their current employees (but not retirees, former employees, and beneficiaries) borrow against their accumulated balances in those savings plans. Loans must carry current market interest rates, and a worker cannot borrow more than 50 percent of the plan balance.

Clearing Home-Equity Loans

These days, obtaining a home-equity loan or line of credit is almost as easy as walking into your neighborhood bank. Rates are reasonable, and fees have been coming down.

There can be complications when you sell your home, however. You may have to notify your lender when you put your home up for sale, and you certainly will have to notify the people who will handle the closing, to avoid surprises at settlement. The settlement official will see to it that both the original mortgage and the home-equity loan are satisfied at closing.

Still, home-equity loans are a good deal, if only because the interest is fully deductible, unlike interest on personal borrowing.

Speedy Loan Approval

If you have ever applied for a business or personal loan, you know how terribly frustrating it can be. For some people, getting a loan approved can take forever. And that's a shame, because there is a lot you can do to speed the process.

The most common reasons for delay in getting a loan approved are that some questions on the loan application are not answered or some responses are unclear. When that happens, the application will be kicked back to you, and the entire process will start again.

Loan officers want you to fill out the forms completely and answer all the questions about employment, salary, assets, and debts. Include account numbers for savings, investments, charge cards, and other loans. And if there is a problem in your past that requires an explanation, deal with it upfront. Lenders are reluctant to deal with applicants who stretch the facts about their finances. NB

For Your Tax File

What you need to know to keep taxes from overtaxing you.

By Gerald W. Padwe, C.P.A.

ACCOUNTING

Smaller Can Be Better

In the daily struggle to keep a small business operating, it is often easy to lose track of how the tax code favors smaller enterprises. In this and next month's column, we will look at some of the "smaller is better" tax advantages.

For instance, consider something as important as your method of tax accounting. There are two basic systems: the accrual method and the cash method.

Under the accrual method, income and expenses are recorded in a year when "all events" have occurred to determine income or liability. Generally it does not matter when you are paid for what you sell; what matters is when the sale takes place.

Under the cash method, income is recorded when the cash is received, and deductions are recorded when expenses are paid. For most businesses, the cash basis can be invaluable. Not only is it simple and logical, but usually deductions come sooner than the income from the product or project that the expenses support. Deferring income and accelerating deductions is a basic tenet of tax-wise planning.

PHOTO: DICK LURIA—THE STOCK MARKET

Your firm has some inventory? *Then you must use the accrual method of tax accounting: Income and expenses are recorded in a year when "all events" have occurred to determine income or liability.*

The 1986 Tax Reform Act wiped out the cash basis for all but three categories of taxpayer: small business (corporations, proprietorships, or partnerships with gross receipts of $5 million or less), farmers, and some personal-service organizations. However, a small business with inventories is required to continue using accrual accounting.

Another consideration for smaller firms is the last-in, first-out (LIFO) method of valuing inventory. The last-purchased, high-cost inventory is what is deducted from purchases in determining the cost of goods sold. Unfortunately, using LIFO can be complicated. Therefore, there are special rules under which small businesses with gross receipts of $5 million or less can elect a simplified method that makes LIFO much easier to use. For details, consult your tax accountant.

INVESTMENTS

Do You Know What You Sold?

During periods of stock-market turmoil, many investors have given up hope of understanding the market's ups and downs, and they have turned more and more to mutual funds to take advantage of diversity within a portfolio.

One noninvestment drawback to these funds, though, is accounting for the cost of shares. With prices fluctuating daily, and with funds routinely recording purchases to the nearest thousandth of a share, keeping track of the cost of a specific share is a cumbersome process. This is particularly true for those investors who have monthly dividends reinvested in the fund at whatever price exists on the dividend date.

When the time comes to sell shares and calculate the cost of shares sold, following the rules provided by regulation can be most important to obtaining the best tax result. This was the unhappy lesson learned by a certain investor who had acquired mutual-fund shares over time in a rising stock market. Because prices were climbing, it was advantageous for him to treat sales as coming first from the most recently purchased shares, since they would have a higher cost and thus result in lower gain.

Accordingly, the investor used the last-in, first-out method of accounting for mutual-fund sales, only to be challenged by the IRS. Regulations governing sales of stock acquired at different times state that, in the absence of specific written instructions from the investor to the broker or agent, a first-in, first-out flow must be assumed.

Since the investor had bought and sold many of his shares by telephone, without any formal written instructions to the fund agent, he was not permitted to treat his later-purchased, higher-cost shares as sold first. The result was a substantially higher tax gain for the year. The U.S. Tax Court agreed with the IRS that this was proper.

But how can you avoid this kind of result? Even if the sale is made by telephone, send your broker or fund agent a confirming letter that states which shares are to be sold. In addition, the broker or agent must send you a confirmation letter saying that your instructions have been followed.

Avoid a written request that states, "Please make this sale from my highest-cost shares in XYZ fund." Instead, your letter should identify the number of shares acquired (whether through purchase or dividend reinvestment) on specific dates at specific prices, to ensure you have satisfied the regulatory rules.

Is this a triumph of form over substance? Absolutely! But it is a relatively painless exercise to follow, and your lower tax bill should more than make up for the nuisance of drafting those letters to your broker. NB

Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.

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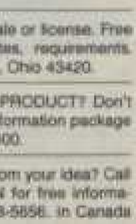

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Direct Line

In which experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore and Bradford A. McKee

RETAILING

For The Record

I would like to start my own record shop in my town. I need information on how I can get started and where I can obtain the stock that I would need. I also would like to know if the U.S. Small Business Administration would help on a loan for a business of this type.
C.C., Hazlehurst, Miss.

ILLUSTRATIONS: DAVE ALLEN

Lynn Henley, director of membership development for the National Association of Recording Merchandisers, says the record business is "very entrepreneurial," and she explains that small, independent record shops typically are supplied by companies that offer "one-stop shopping for everything" that the stores need.

Henley suggests you contact such "one-stops" in your area and ask for information on your market.

The National Association of Recording Merchandisers, upon request, will supply a list of such companies among its member firms. For more information, write to NARM at 3 Eves Drive, Suite 307, Marlton, N.J. 08053, or call (609) 596-2221.

The Small Business Administration may help you with a loan once you have exhausted all other sources of lending. Call the SBA Answer Desk at 1-800-368-5855. (Those in Washington, D.C., can call 202/653-7561.)

In The Cards

I am interested in selling various kinds of greeting cards. Could you supply me with some information on this?
B.N.H., Winston-Salem, N.C.

The Greeting Cards Association has several publications designed to help you, and they are available by writing or calling the organization at 1350 New York Ave., N.W., Suite 615, Washington, D.C. 20005; (202) 393-1778.

VINICULTURE

From The Grapevine

My husband and I are considering starting a small vineyard on our property. We know very little about the business of winemaking except for what we have garnered during visits to vineyards. Whom do we contact for information?
H.P., Broadway, Va.

With 200 commercial-sized vineyards and 46 licensed wineries, Virginia has shown that it is a state where vineyards can prosper, says R. de Treville Lawrence.

Lawrence has presided over the Vinifera Wine Growers Association in The Plains, Va., for 16 years. The association publishes a 72-page quarterly journal on East Coast wines, particularly those in Virginia. An annual subscription—including membership in the association—is $17; a single copy is $4. You can write to the association at P.O. Box P, The Plains, Va. 22171-0107.

U.S. government regulations on commercial wine marketing are discussed in *Laws and Regulations Under the Federal Alcohol Administration Act*, a publication available from the Public Affairs Office, Bureau of Alcohol, Tobacco and Firearms, Room 4402, 1200 Pennsylvania Ave., N.W., Washington, D.C. 20226.

SPECIALTY SUPPLIES

Wedding Plans

I am interested in starting my own wedding-supplies business. It would include everything from inexpensive accessories to wedding gowns. Can you suggest sources that would be helpful for me?
D.G., Palm City, Fla.

Start with the National Bridal Service, the trade association for the industry. The organization works with 800 stores across the country that sell bridal apparel and accessories.

For $65, the National Bridal Service will send you a pre-opening service packet that contains information on capital needs along with some market-survey statistics that pertain to your area.

Write or call the organization at 3122 West Cary, Richmond, Va. 23221; (804) 355-6945.

Another source that would prove helpful is the Bridal Apparel Association of America.

This organization works with about 30 leading companies that design and make bridal wear.

William Heaton, who is the executive director of the Bridal Apparel Association, will forward your request to the companies. You can write to Heaton at 510 Montauk Highway, West Islip, N.Y. 11795.

Religious Endeavor

I am searching for wholesaler-distributors as well as for manufacturers of liturgical vestments, ecclesiastical met-

alware, church candles, and incense.
T.H., Wyandotte, Mich.

Contact the Christian Booksellers Association at Box 200, Colorado Springs, Colo. 80901; (719) 576-7880. The association offers a directory of more than 900 suppliers. The directory, which costs $67.75, also lists individual items alphabetically, along with companies that supply them.

RECYCLING

Lucrative Choice

I would like to open a commercial aluminum-recycling center. Where can I find information about setting up such an operation?
J.B., Helena, Ala.

Jean Blevins, managing editor of *Recycling Times*, says aluminum is good re-

cycling material "because it is so easy to handle, it's dense and easy to transport." She says that aluminum is "the most lucrative substance a person could recycle."

You can obtain helpful information about various recycling programs by writing to the Aluminum Association, 900 19th St., N.W., Washington, D.C. 20006.

BUSINESS BASICS

From The Beginning

I don't know where to begin to collect information on how I could start my own small business.
J.K., Boston

The Small Business Administration offers various pamphlets on the basics of starting a business. The topics include matters such as where to go to obtain loans, how to structure an office, and tips for deciding whether to work out of your home. The pamphlets can be purchased directly from the Small Business Administration. For a copy of the agency's publications list, call the SBA at 1-800-368-5855.

If you plan to work in your home, you might want to obtain a copy of *Starting and Managing a Business From Your Home*, a 48-page booklet published by the Small Business Administration. It is available for $1.75 from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Also, contact the local SBA field office in Boston for a list of seminars and conferences on starting a business. John McNally Jr. heads the office and can be reached at (617) 565-5590; the address is 10 Causeway St., Room 265, Boston, Mass. 02114.

SERVICES

Dry Cleaning

I am thinking of opening a dry-cleaning business. Is there a trade association I could contact for information on licensing, standard operations, and capital requirements?
L.F., St. Louis

A good place to start is the International Fabricare Institute at 12251 Tech Road, Silver Spring, Md. 20904.

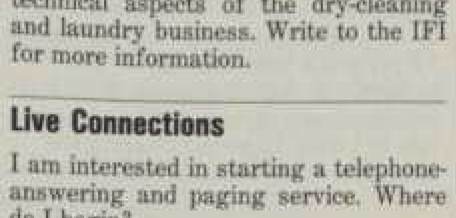
The institute is an educational and research center for the industry and publishes several newsletters on the technical aspects of the dry-cleaning and laundry business. Write to the IFI for more information.

Live Connections

I am interested in starting a telephone-answering and paging service. Where do I begin?
N.R., Franklin, Wis.

Pam St. Clair, information specialist with the Association of Telemessaging Services, says that more answering services are home-based than ever before. She adds, however, that some widely sought answering-service features, such as paging and voice mail, require equipment that some individuals might not be able to afford. You should write a business plan and determine your market and competition.

St. Clair can send you an information



packet that includes an advisory letter on the business, a list of suppliers, and a few Government Printing Office publications on starting a business. Write to St. Clair at ATS, 320 King St., Alexandria, Va. 22314.

CATERING

Serving Suggestions

My husband and I want to start a catering business. We would like information on publications, trade associations, and government loans.
T.B., Tampa, Fla.

Tony Rubino, president of the National Catering Association, says a quality off-premises caterer can reap 25 percent to 30 percent profit on investment. Rubino has produced an information guide for prospective caterers. The guide details the types of food, equipment, kitchen space, and vehicles needed for operating a catering business. The publication also discusses liability-insurance requirements and deals with industry trends. To obtain a copy, send a check for $14.95 to the National Catering Association, Dept. B, P.O. Box 4510, Akron, Ohio 44310.

HOUSING

Creating Space

Our company would like information on how to apply for funding for a housing complex for senior citizens.
M.A. Jr., Clayton, N.J.

The Department of Housing and Urban Development funds only projects sponsored by nonprofit associations. For a funding application and copies of the rules regarding HUD funding, write to your local HUD field office at Housing Development Division, HUD, 60 Park Place, Newark, N.J. 07102.

HOW TO ASK

Have a business-related question? Send your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

The editors of Direct Line have compiled the most-asked questions into the compact "Your Small Business Survival Guide," at $3 a copy. To order, call (202) 463-5433 or write to Diane Lewis at the address above. NB

COMMENTARY

Where I Stand

Readers' responses to this poll give them a direct voice in the policy-making process of the U.S. Chamber of Commerce.

1. Will The Economy Continue To Expand?

The U.S. economy has entered its eighth year of growth. During this record-long peacetime period of expansion, millions of businesses and jobs have been created, and inflation and interest rates have moderated substantially. But the rate of growth slowed in 1989, due in part to the inability of President Bush and Congress to negotiate a long-term strategy for reducing the federal budget deficit and spurring savings and investments. Are you confident that the president and Congress will agree on spending and tax policies that will keep the economy growing throughout 1990?

2. Will Customers Curtail Spending In 1990?

Economic expansion over the past seven years has been fueled by vigorous consumer spending. While median family income has increased approximately 5.5 percent a year throughout the expansion, the consumer price index has increased only at an annual average rate of about 3.5 percent during the same period. And interest rates are less than half what they were when the recovery began. Some experts, however, think consumers will curtail spending because they feel burdened by debt or are uneasy about the current impasse on fiscal policy. Do you believe that consumer spending will decrease significantly during 1990?

3. Should Congress Enact Labor's Agenda?

Though Congress recently raised the minimum wage over the objections of small business, lawmakers have been largely dissuaded in recent years from adopting key provisions of organized labor's legislative agenda. That agenda includes mandating such employee benefits as health insurance and parental leave. Though many emerging companies could not absorb the higher operating costs that would result from such mandates, unions will continue trying to convince the Bush administration and Congress that companies that cannot afford to provide a full array of benefits should not be in business. Should lawmakers enact labor's agenda in 1990?

Verdicts On November Poll

Here is how readers responded to the questions in the November issue.

	Yes	No	Undecided
Give business wide latitude in employee drug testing?	68%	22%	10%
Send U.S. troops to nations battling drug traffickers?	48%	43%	9%
Legalize drug use in America?	24%	68%	8%

Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

COMMENTARY

Bad Tax Policy Boosts Debt

By Warren T. Brookes

One of the primary reasons for soaring stock values since 1982 has been the growing use of leveraged buyouts (LBOs) and management buyouts (MBOs). These techniques have been used to buy back about 18 percent of total corporate equity, leaving the market to fight over a diminishing equity pool. At the same time, much of this equity has been exchanged for debt of seemingly questionable quality.

Many in Congress are eager to slow down this process by making less of the debt involved in LBOs and MBOs tax-deductible. Such a measure may still make it through the House Ways and Means Committee this coming year as part of an overall deficit-reduction package.

Before this stampede gets too far out of the corral, however, lawmakers should read a very carefully researched and balanced look at corporate debt in a recent issue of the *New England Economic Review*, published by the Federal Reserve Bank of Boston.

In the article, economist Richard Kopcke argues that even though there is a rising level of corporate debt, such "rising indebtedness does not necessarily imply that businesses are of failing health or that capital formation will be impaired." Kopcke warns that "rising indebtedness may be a symptom of deteriorating incentives for capital investment or of defects in credit markets. Policies that attempt to cure the symptom rather than the underlying problems may be ineffective. At worst, those policies might impede further the efficient flow of funds from savers into capital investments."

> *Instead of raising taxes on debt, Congress might well consider ending the double taxation of dividends and the taxation of purely inflationary capital gains. That inflation premium now makes debt more attractive in capital formation than equity.*

In short, instead of raising taxes on debt, Congress might well consider ending the double taxation of dividends and the taxation of purely inflationary capital gains. That inflation premium now makes debt more attractive in capital formation than equity and helps make U.S. capital costs the highest in the industrial world.

Barring that, and given the rather modest dimensions of the problem, Congress would be better off doing nothing—and let the market tell corporations which way to go. The recent weakness in the "junk bond" market may well be a more than sufficient early warning signal on its own.

Kopcke points out that "though indebtedness is high by recent standards, this ratio of debt to the replacement value of assets is more comparable to that which was common earlier in this century." For example, while the debt-to-asset ratio of the Standard & Poor's top 500 corporations has risen from 16 percent in 1969 to 25.6 percent now, that level is up only modestly from the 23.4 percent of 1979. Moreover, it is comparable to levels routinely seen 50 or 60 years ago and is far lower than levels in most other industrial nations.

Congress should understand that in most instances, businesses have taken on added debt because the conditions favored its use and because, as Kopcke notes, "financial innovations have increased the potential supply."

At the same time, U.S. corporations are not that highly leveraged in comparison with foreign companies. For example, data for 1986 show that U.S. corporate debt levels were 17 percentage points lower than those in Japan, 33 points lower than those in West Germany, and 11 points below Canada's.

In fact, one pressure that may be driving up U.S. corporate debt is competition from much lower capital costs abroad. Equity financing in the U.S. automatically involves a double taxation of dividends, which generates marginal tax rates as high as 67 percent. Thus, tax-deductible debt, even on high-yield junk bonds, drastically lowers capital costs. Even so, those costs in the U.S. are 50 to 80 percent above costs in Germany and Japan.

This may explain why U.S. banks, in an effort to meet the competition of the "merchant banks" from Europe and Japan, have become much more aggressive in offering debt-financing packages for LBOs and MBOs. Michael Jensen of the Harvard Business School sees this current leveraging as nothing more than a return to practices of the early 1900s, when U.S. merchant bankers teamed up with entrepreneurial hands-on tycoons.

Kopcke says: "After all but vanishing in the 1930s and 1940s, merchant bankers and institutional investors have regained influence, perhaps as a result of more global capital markets," which allow the rapid assembly of capital for major deals within comparatively short periods of time.

But Kopcke also thinks that one of the main driving forces behind the rise in U.S. corporate debt is bad congressional tax policy: "Current tax law exempts debt-service charges from the corporate income tax, tending to encourage the use of debt financing. Furthermore, the burden of personal capital-gains taxes on the appreciation of equity fosters greater leverage."

In other words, if Congress is really worried about too much corporate debt, all it has to do is end the double taxation of dividends, as Kopcke says, "by properly integrating the income accruing to personal income tax, thereby minimizing artificial distortions."

Cutting the capital-gains tax wouldn't hurt either. NB

Warren T. Brookes is a nationally syndicated columnist on economic issues.

COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

Enterprise Zones: Proceed Cautiously

Proposals to create enterprise zones to help revitalize economically decayed areas are receiving new attention in Congress. Separate proposals by President Bush and Rep. Charles B. Rangel, D-N.Y., would provide tax

PHOTO: © CHRISTOPHER MORRIS—BLACK STAR

incentives and regulatory relief to encourage companies to locate or remain in decayed urban and rural areas and would encourage investment in firms located in such zones.

The Bush proposal, for example, would exempt capital gains made on tangible assets—such as real estate—held for at least two years. The Rangel bill would provide a 10-percent investment credit for acquiring real property in enterprise zones.

The U.S. Chamber of Commerce supports the concept of enterprise zones, which are more cost-effective ways to enhance economic opportunities for zone residents than increased government spending. The Chamber cautions, however, that such zones may cause unexpected economic distortions and tax complications, and it supports keeping the initial number of zones small so that the costs and benefits can be assessed.

Ask your representative and senators to support measures that establish enterprise zones, while limiting the number of such zones until their impact is fully known.

Campaign Reform And PACs

Sweeping proposals by the Bush administration to reform the nation's campaign laws were recently introduced in Congress. The proposals, S. 1727 and H.R. 3425, would eliminate those political-action committees

PHOTO: © WALLY McNAMEE—FOLIO INC.

(PACs) sponsored by corporations, trade associations, and labor unions. In addition, contribution limits for remaining PACs would be lowered from $5,000 to $2,500 per candidate per election, and candidates could not roll over excess campaign funds to the next election cycle.

Business is concerned about any new restrictions on PACs, which have broadened citizens' participation in the political process. PACs have enabled tens of thousands of citizens to join together to pool their resources to support candidates who share their political beliefs.

The present PAC system represents a considerable improvement over the 1960s and early 1970s, when small numbers of anonymous contributors could influence the political process outside the public view.

Contact your representative and senators. Urge support for the current voluntary political process, including present contribution limits, in which individuals may donate money to the candidates, political parties, and PACs of their choice.

Joint Ventures Strengthen U.S.

Proposals to help U.S. businesses compete in world markets through joint manufacturing ventures have been introduced in both houses of Congress.

These proposals come at a time

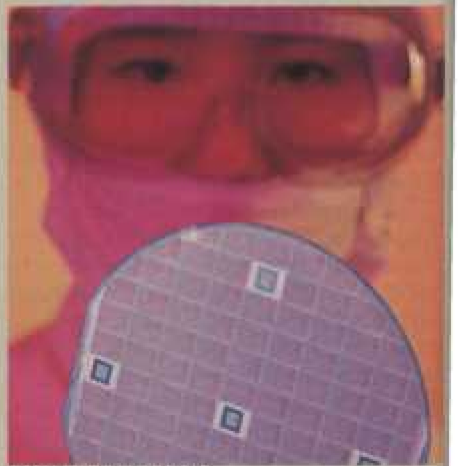


PHOTO: © RENE SHERET—FOLIO INC.

when U.S. firms must compete in a global market where advanced-technology products have short lives, the pace of innovation is quickening, and costs of development and production are extremely high. Joint manufacturing ventures would let firms lower costs by spreading risks, pooling resources, sharing technologies, and combining production.

Antitrust laws let the Justice Department sue to block joint production ventures deemed anticompetitive, and private antitrust suits can lead to treble damages—a deterrent to many firms considering such ventures.

The numerous proposals to clarify legal standards and eliminate treble damages include H.R. 1025 by Rep. Don Edwards, D-Calif.; H.R. 2264 by Rep. Hamilton Fish, R-N.Y.; and H.R. 1024 by Reps. Rick Boucher, D-Va., and Tom Campbell, R-Calif.

Urge your representative and senators to support antitrust-reform bills that encourage joint production ventures as ways to foster innovation and U.S. competitiveness.

COMMENTARY

Editorials

The critical issue of accessibility for the disabled should be addressed, but the bill now pending in Congress is not the answer.

A Business Forced Into Bankruptcy Can't Provide Opportunities To Anyone

Many businesses have long since discovered the benefits of hiring the disabled. These workers have demonstrated that they can be the equals, if not the superiors, of the nondisabled in productivity, efficiency, safety, and attendance.

It follows that efforts to expand opportunities and accessibility for the disabled in employment and in society generally deserve support.

But the goal must be actually providing such opportunities. That point is too often overlooked in legislation offered to achieve social ends.

Such legislation often becomes self-defeating by setting up elaborate systems of mandates and punishments for those expected to provide the benefits sought.

That is the case with the Americans with Disabilities Act now pending in Congress. Its avowed purpose is to assure equal opportunity and accessibility in employment, public services (such as transportation), public accommodations, telecommunications, and in the activities of state and local governments.

PHOTO: © DAVID FALCONER—FOLIO INC.

Businesses would have to make the structural and other changes needed to comply with requirements of the bill. Those that failed to do so, even inadvertently, could be open to administrative and court challenges, with the latter including money damages and civil penalties.

The disabled would not gain through the loss of a business that closed because it could not meet the financial demands of the legislation.

The critically important issue of accessibility for the disabled should, of course, be addressed. And it is understandable that elected legislators are reluctant to appear callous to the disabled. But the Americans with Disabilities Act as now written is not the answer.

The Senate has passed this measure, but the House is yet to act. There is therefore time to consider the legitimate reasons why small businesses in particular are concerned about the legislation.

Congress should accept business proposals that would curb the bill's potential to generate a massive increase in litigation, impose heavy costs, and subject companies to harsh penalties that could range to $50,000 for a first offense.

All involved should commit themselves to an all-out effort to find a solution that enables the disabled to participate as fully as possible in the nation's economy but does not impose cost and regulatory burdens that damage that economy.

There's One Economic Forecast That Can Be Made With Absolute Certainty

As this month's cover story points out, there are contradictory economic signals as we enter the 1990s.

Some experts believe that the new year will see at least as much growth as 1989 did. Others expect a sharp downturn.

Some see 1990 as the year in which the recovery and growth of the past seven years will finally run out. Others say that any slowdown will more likely be a pause followed by strong expansion in 1991 and beyond.

Amidst that uncertainty, the nation's small-business people maintain the optimism and confidence that brought them into entrepreneurship in the first place.

Small-business owners generally expect that, whatever happens to the economy, 1990 will be a better year for them.

It would be naive, however, to say there is no threat to the continuance of economic health the nation has enjoyed as a result of the adoption nine years ago of policies providing incentives for investment and work.

There is a threat. It comes from efforts in Congress to tax and spend, to mandate ever-higher costs and regulations on the enterprise system, and to penalize success in other ways.

Forecasting a recession on the basis of economic variables is an uncertain exercise.

But it's an absolute certainty that a recession would follow enactment of the anti-growth proposals now pending on Capitol Hill.

That's the theme that those concerned about the continuation of prosperity should emphasize as we enter a new decade, one that Americans hope will bring even more prosperity than the last. ■

Free-Spirited Enterprise

Fresh thinking from the frontiers of American commerce.

By Janet Lowenstein

CREDIT

Pet Plastic

Now you can show your pet that it's a breed apart—by giving it a credit card of its own. Massachusetts Co. Inc., a Boston-based bank, offers a Visa card—complete with photos of dogs or cats—for you and your pets.

Card members get savings on animal health insurance and pet items and a subscription to *Exceptional Pet*. The card can be embossed with your pet's name under your own, but you must sign for purchases—and pay for them.

ILLUSTRATIONS: WANGDOON LEE

COMMUNICATIONS

Word Games

Ever confused by what you hear out of Washington? Perhaps there's a language problem. William Lutz, author of *Doublespeak* (Harper & Row), says the common language in government and economics is "doublespeak": It pretends to communicate but really doesn't.

To test your fluency in "doublespeak," match the numbered fuzzy phrases with the lettered definitions:

1. chronologically gifted
2. pavement deficiency
3. misspeak
4. people expressways
5. emergency exit light

a. lie
b. old
c. flashlight
d. sidewalks
e. pothole

Answers: 1. b; 2. e; 3. a; 4. d; 5. c

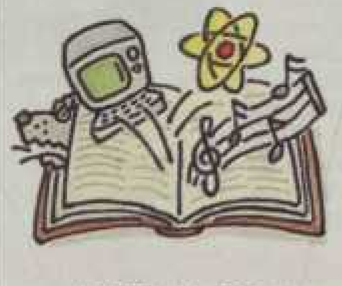
Show And Tell

Hear a blacksmith's hammering as you read about the craft. See the joints of the human skeleton move. Listen to animal cries or a concert. All by looking it up in your encyclopedia.

Compton's MultiMedia Encyclopedia, published by Britannica Software, combines text, sight, sound, and animation in its 26-volume encyclopedia packaged on one compact disk with more than 600 megabytes of memory—the equivalent of 1,800 floppy disks. The full text has more than 8.7 million words in 5,200 articles, with 60 minutes of audio, including speeches, music, and animal sounds.

All for $895.

To run the system, you need an IBM-AT or IBM-PS/2 Model 30 personal computer (or a compatible model), a VGA card and color monitor, a 20-MB hard-drive minimum, speech adapter and card, mouse and related software, 1-MB RAM, DOS 3.3 or later, and a CD-ROM drive with controller card.



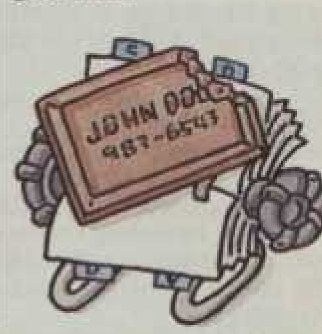
No computer knowledge needed, of course.

CORPORATE IDENTITY

Name, Number, Nibble

Can't find your client's business card? Maybe somebody in your office ate it.

No wonder—if it came from Choco-Logo Confectionary Design, of Buffalo, N.Y. The company molds chocolate to look like business cards and logos—all in good taste.



PROTECTIVE SERVICE

Spray And Bake

No need to pack your suntan lotion for your trip south this winter. About 50 beaches offer spray-on suntan lotion in kiosks, called Sun Centers. Produced by K-Sun Inc., in Memphis, Tenn., these vending machines let you spray the lotion. You select a sun-protection level, deposit two quarters, and have 40 seconds to spray the lotion or oil directly where you want it.

CAFETERIA HEALTH PLAN

Just Like A Mother

Got the flu? Chicken Soup Array, a Frederick, Md., company, says take two aspirin and call the company in the morning.

The firm will send its "penicillin"—chicken soup—anywhere in the U.S.

The company offers two basic gift packages. The Young at Heart, for $19.95 plus shipping, contains a 15-ounce can of chicken soup, tissues, orange juice, cocoa, tea, chocolate candies, a squeaky stuffed toy chicken, and a book. The Feel Better Four Pack, for $29.95 delivered, includes four kinds of chicken soup—vegetable, broth, rice, and noodle—assorted imported candies, and a stuffed toy chicken. (Dial for soup any day of the year: 1-800-365-SOUP.)

If these remedies don't work, you can always resort to that other penicillin.

COMING FEATURES IN *NATION'S BUSINESS*

Energy *Crunch Time?*	NB examines the coming debate over crucial energy questions and their importance to business.
Education *Final Grades*	Be sure you're getting all you can from your training program. Don't miss these practical tips.
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Don't Believe Everything You Read!

Sometimes you just have to laugh. Especially when it comes to ludicrous headlines like the one above.

You see, today's large "superstores" simply cannot provide the best overall value for your home office. In fact, many don't offer even the most basic customer service and support.

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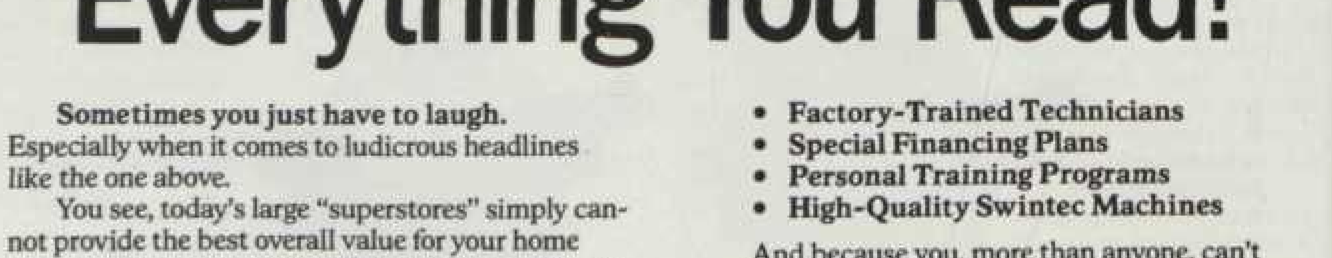

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